Company Note

REIT | Singapore | June 1, 2018

# ESR-REIT

## Could this be the bean that grows into the giant beanstalk?

Singapore

**ADD** *(no change)*

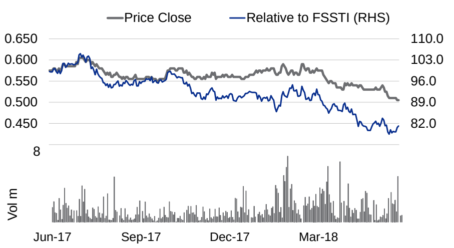
| Consensus ratings*: | Buy 3 | Hold 0 | Sell 0 |
|---|---|---|---|

| | |
|---|---|
| Current price: | S$0.51 |
| Target price: ▲ | S$0.62 |
| Previous target: | S$0.60 |
| Up/downside: | 21.9% |
| CGS-CIMB / Consensus: | 5.1% |
| Reuters: | ESRR.SI |
| Bloomberg: | EREIT SP |
| Market cap: | US$597.2m |
| | S$799.8m |
| Average daily turnover: | US$0.76m |
| | S$1.00m |
| Current shares o/s: | 1,327m |
| Free float: | 68.4% |

*Source: Bloomberg

**Key changes in this note**

- FY18F DPU decreased by 4.9%.
- FY19F-20F DPU increased by 2.5-3.0%.




Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -4.7 | -11.4 | -12.2 |
| Relative (%) | 0.4 | -8.8 | -19 |

| Major shareholders | % held |
|---|---|
| Tong Jinquan | 18.3 |
| ESR | 13.3 |

- EREIT and VIT (Not Rated) could soon find themselves in Singapore's corporate history books, should the planned merger of these two REIT vehicles go through.
- We have done a comprehensive rework of EREIT's model, and hence the DPU reversions. Post-merger EREIT would be the fourth-largest industrial S-REIT.
- Propelled by the addition of VIT as well as an expected bottoming in the Singapore industrial market, we now forecast FY19F DPU to expand by 12.8% yoy.
- A major postulation to REIT merger is that large-cap REITs trade at a premium against small-mid caps and enjoy lower costs of funding.
- We maintain our Add call with a higher DDM-based TP.

### First merger in S-REIT history

EREIT has proposed a merger with VIT by way of a trust scheme arrangement. The scheme consideration payable to VIT unitholders is S$0.96/unit, implying 1.26x current P/BV. The scheme consideration will be satisfied via 10% cash and 90% through the issuance of new EREIT units at an issue price of S$0.54/unit, implying a gross exchange ratio of 1.778x.

### How would the enlarged trust look like?

We expect the post-merger EREIT to become the fourth-largest industrial S-REIT with a combined AUM of c.S$3bn. In fact, it would be the largest S-REIT with pure exposure to the Singapore industrial market. Including the potential acquisition of 15 Greenwich Drive, the enlarged trust would have a portfolio of 57 properties with total GFA of c.13.6m sq ft. Post-merger, high specs industrial and business park would form 46% of the REIT's AUM. We forecast its gearing to rise to c.40% (as at end-FY19F). Tong Jinquan will own c.33.8% of the enlarged trust; ESR will own c.9.1%.

### Our comprehensive rework of EREIT's model

For simplicity, we incorporate the merger on "day one" of FY19F. Propelled by the addition of VIT as well as an expected bottoming in the Singapore industrial market, we now forecast FY19F DPU to expand by 12.8% yoy. We see FY18F as a "work-in-progress" as additions to the portfolio are counteracted by on-going weakness and capital management actions. We now forecast FY18F DPU to decrease by 6.3% yoy.

### Size matters because large caps trade at a premium

Historically, large-cap industrial S-REITs have averaged 5.8% trailing dividend yield or c.210bp spread vs. small-mid caps. In terms of P/BV, large caps have averaged 1.18x or 0.23x premium against small-mid caps. Given that EREIT will now join the "big league", we believe that it would be re-rated closer to its large-cap peers. Furthermore, we believe that EREIT would be able to narrow the large-small issuer credit spread. We assume that EREIT's all-in cost of debt would decrease by 10bp yoy to 3.45% p.a. in FY19F.

### What are the potential pitfalls of the merger?

While the merger is yield-accretive for EREIT, it is NAV-dilutive. We note that the income support for VIT's UE BizHub East expires in Nov 2018. That said, organic improvements from UE BizHub East and Viva Business Park would partially make up for the absence of income support in FY19F. Also, the underlying land leases at VIT's Viva Business Park and Jackson Square are short, though successful land lease extensions may unlock value in VIT. We acknowledge that the merger impact on EREIT's TP is marginal.

### Maintain Add with higher DDM-based TP

Incorporating the merger, we raise our TP to S$0.62. This implies a 6.5% FY19F yield and 1.25x P/BV, in line with what the large-cap industrial S-REITs are trading. Comparing against its own historical trading band, our TP implies that EREIT could re-rate to 1 s.d. above its 5-year mean. It is currently trading 1 s.d. below mean. Downside risks are failure to merge, rate hikes and continued challenging leasing market.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| Financial Summary | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| Gross Property Revenue (S$m) | 112.1 | 109.7 | 138.2 | 268.9 | 272.3 |
| Net Property Income (S$m) | 82.3 | 78.4 | 100.6 | 195.5 | 198.0 |
| Net Profit (S$m) | 7.1 | 0.6 | 55.5 | (71.8) | 128.3 |
| Distributable Profit (S$m) | 54.5 | 50.4 | 56.8 | 127.9 | 131.4 |
| Core EPS (S$) | 0.041 | 0.037 | 0.035 | 0.052 | 0.040 |
| Core EPS Growth | (3.7%) | (10.0%) | (4.7%) | 50.1% | (22.8%) |
| FD Core P/E (x) | 12.41 | 13.80 | 13.28 | 9.65 | 12.49 |
| DPS (S$) | 0.041 | 0.038 | 0.036 | 0.040 | 0.041 |
| Dividend Yield | 8.19% | 7.52% | 7.07% | 7.97% | 8.19% |
| Asset Leverage | 37.3% | 39.5% | 34.6% | 39.7% | 39.8% |
| BVPS (S$) | 0.63 | 0.59 | 0.58 | 0.50 | 0.50 |
| P/BV (x) | 0.80 | 0.86 | 0.87 | 1.02 | 1.02 |
| Recurring ROE | 6.29% | 6.03% | 6.53% | 10.00% | 8.15% |
| % Change In DPS Estimates | | | (4.91%) | 2.51% | 2.97% |
| CIMB/consensus DPS (x) | | | 0.89 | 1.01 | 1.01 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

# Could this be the bean that grows into the giant beanstalk?

## Valuation and recommendation

### First merger in S-REIT history

In the famous fable, *Jack and the beanstalk*, Jack exchanged his milk cow for magical beans. This was thought to be a foolish bargain until his bravery yielded him untold riches. Drawing parallels with this story, we believe EREIT's unit-swap with VIT would land unitholders a "golden goose".

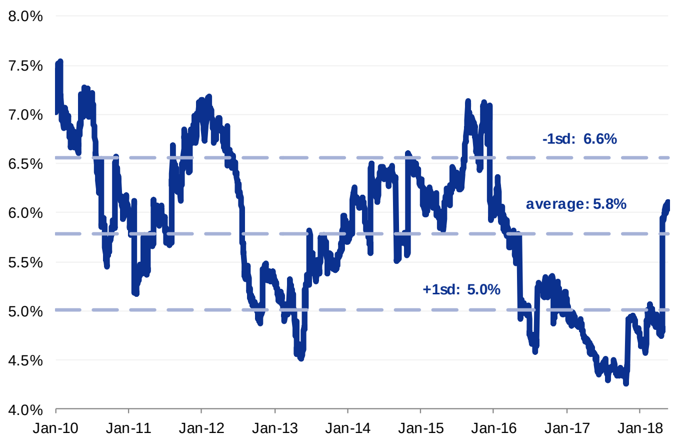
In this deep dive report, we have done a comprehensive re-work of EREIT's model and baked in the merger of EREIT with VIT. For simplicity – even though the manager expects the merger to be completed by 3Q18 – we incorporate the merger on "day one" of FY19F. Given the re-work, we reduce our FY18F DPU by 4.9% and raise our FY19-20F DPU by 2.5-3.0%.

Propelled by the addition of VIT as well as an expected bottoming in the Singapore industrial market, we now forecast FY19F DPU to expand by 12.8% yoy to 4.03 Scts. We see FY18F as a "work-in-progress" as additions to the portfolio are counteracted by on-going weakness and capital management actions. We now forecast FY18F DPU to decrease by 6.3% yoy to 3.57 Scts. Altogether, we project a 3-year DPU CAGR of 2.8% through FY20F.

Apart from the substantial DPU-accretion, we believe that EREIT would benefit from a larger, stronger and more diversified AUM. We expect a post-merger EREIT to become the fourth-largest industrial S-REIT, with a combined AUM of c.S$3bn. It would also be the largest S-REIT with pure exposure to the Singapore industrial market.

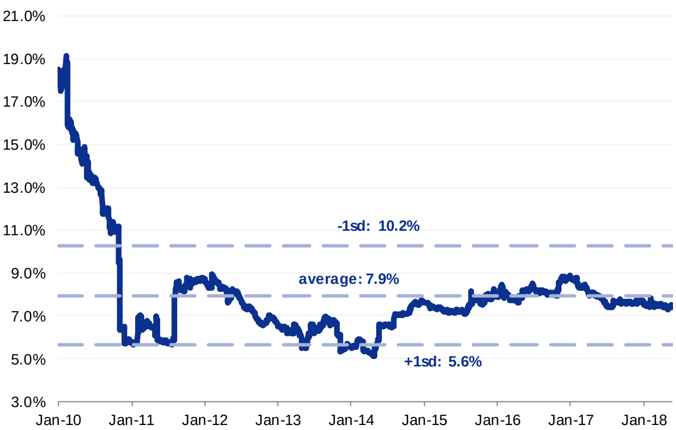
Moreover, we found that large-cap industrial S-REITs trade at a premium against small-mid caps. Historically, large-cap industrial S-REITs have averaged 5.8% trailing dividend yield or c.210bp spread vs. small-mid caps. In terms of P/BV, large caps have averaged 1.18x or 0.23x premium against small-mid caps. Given that EREIT will now join the "big league", we believe that it would be re-rated closer to its large-cap peers.

**Figure 1: Large-cap industrial S-REITs have averaged 5.8% trailing dividend yield or c.210bp spread vs. small-mid caps**



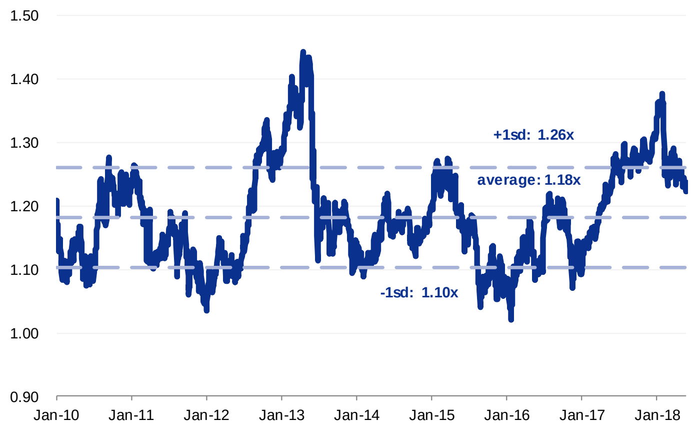

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 2: Small-mid cap industrial S-REITs have averaged 7.9% trailing dividend yield**



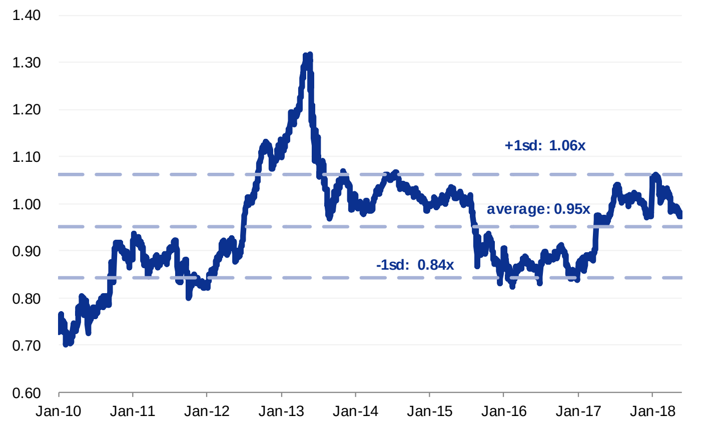

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 3: Large-cap industrial S-REITs have averaged 1.18x trailing P/BV or 0.23x premium against small-mid caps**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 4: Small-mid cap industrial S-REITs have averaged 0.95x trailing P/BV**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Following the merger, EREIT would gain immediate access to business parks. We consider business parks to be the pinnacle of industrial space sophistication and a real estate proxy for Singapore's shift towards higher value-added activities. Post-merger, we estimate that high specs industrial and business park would form 46% of the enlarged trust's AUM (asset under management). Pre-merger, high specs industrial and business park formed 29% of EREIT's AUM (refer to Figures 14 and 16).

Lastly, a bigger clout commands lower borrowing costs. As at 31 Mar 2018, the large-cap industrial S-REITs had a simple average all-in cost of debt of 2.7% p.a. This compares to small-mid caps' 3.5% p.a. We believe that post-merger, EREIT would be able to narrow the large-small issuer credit spread and reap the benefits of lower cost of funding. We assume that EREIT's all-in cost of debt would decrease by 10bp yoy to 3.45% in FY19F. With the addition of VIT's borrowings, we estimate that EREIT's gearing would climb to c.40% as at end-FY19F (30% as at 31 Mar 2018).

## Maintain Add with a higher TP of S$0.62 ›

We value EREIT using a DDM valuation and arrive at a TP of S$0.62. With all eyes on the merger, we roll forward our DDM-valuation to FY19F.

Our DDM-based TP implies a 6.5% FY19F yield and 1.25x FY19F P/BV, in line with what the large-cap industrial S-REITs are trading. Given EREIT's DPU accretion in FY19F, its larger market cap, higher trading liquidity and potential index inclusion, we believe that EREIT would re-rate closer to its large-cap peers.

Compared against its own historical trading bands, our TP implies that EREIT could re-rate to one s.d. above its 5-year mean. The REIT is currently trading one s.d. below its 5-year mean.

**Figure 5: DDM-valuation**

| Year | FY19F | FY20F | FY21F | 2022F | 2023F | Terminal value |
|---|---|---|---|---|---|---|
| Explicit DPU forecasts (Scts) | 4.02 | 4.14 | 4.19 | 4.25 | 4.32 | 66.38 |
| PV of explicit DPU forecasts (S$) | 0.45 | | | | | |
| PV of terminal value (S$) | 0.17 | | | | | |
| **Target price (S$)** | 0.62 | | | | | |

**DDM assumptions**
LTG: 1.5%
COE: 8.1%

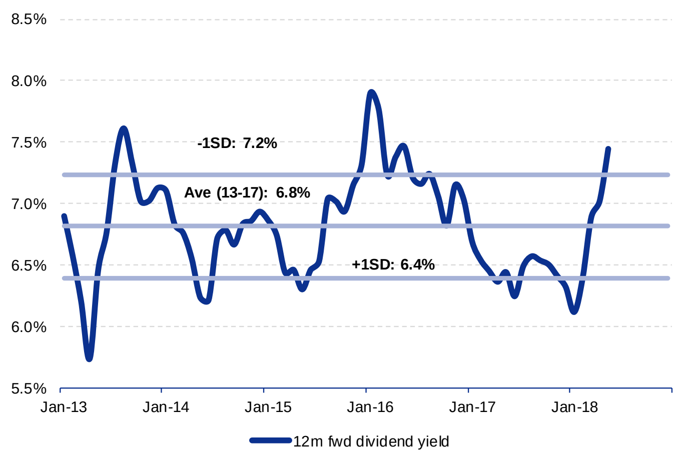
SOURCES: CGS-CIMB RESEARCH

**Figure 6: COE calculation**

| | |
|---|---|
| Rf - (a) | 2.4% |
| Rp - (b) | 6.0% |
| Beta - (c) | 0.95 |
| **COE - (a)+(b)x(c)** | **8.1%** |

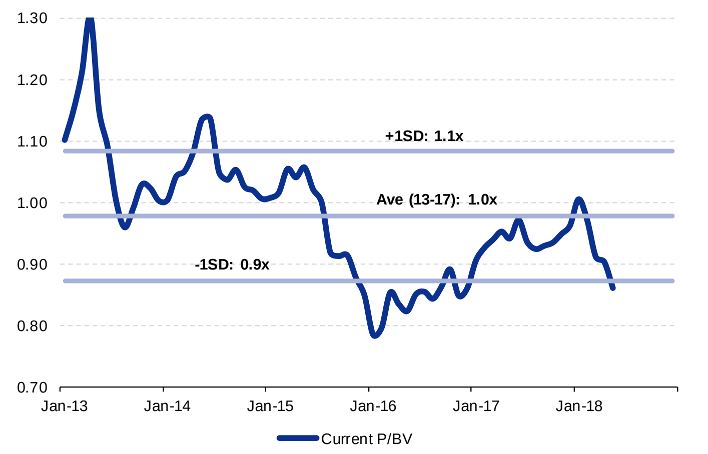
SOURCES: CGS-CIMB RESEARCH

Figure 7: EREIT's 12-month rolling forward dividend yield




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 8: EREIT's current rolling P/BV




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

## Sensitivity analysis

Acknowledging a higher-rate environment, we sensitise that a 50bp increase in COE would reduce EREIT's TP by 8% (Figure 9). In Figure 10, we lay out our FY19F DPU sensitivity to portfolio occupancy, portfolio average gross rents and interest rates. We found that every 1% pt change in portfolio occupancy would impact FY19F DPU by 1.7%, while every 1% change in portfolio average gross rent would impact FY19F DPU by 1.6%. Assuming that the enlarged trust hedges 85% of its borrowings against fixed rates, we found that every 50bp increase in borrowing costs would reduce FY19F DPU by 0.7%.

A 1% change in FY19F DPU would result in a 1Sct change in EREIT's TP.

Figure 9: DDM-valuation sensitivity to COE and LTG: we sensitise that a 50bp increase in COE will reduce EREIT's TP by 8%

| | | LTG | | | | |
|---|---|---|---|---|---|---|
| | | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% |
| COE | 6.6% | 0.68 | 0.74 | 0.80 | 0.87 | 0.96 |
| | 7.1% | 0.63 | 0.68 | 0.73 | 0.79 | 0.86 |
| | 7.6% | 0.59 | 0.62 | 0.67 | 0.72 | 0.78 |
| | 8.1% | 0.55 | 0.58 | 0.62 | 0.66 | 0.71 |
| | 8.6% | 0.51 | 0.54 | 0.57 | 0.61 | 0.65 |
| | 0.091 | 0.48 | 0.51 | 0.53 | 0.57 | 0.60 |

SOURCES: CGS-CIMB RESEARCH

Figure 10: FY19F DPU sensitivity to portfolio occupancy, portfolio average gross rent and interest rates

| | Impact on FY19F DPU |
|---|---|
| 1% pt change in portfolio occupancy | 1.7% |
| 1% change in portfolio average gross rent | 1.6% |
| 50 bp change in interest cost | 0.7% |

SOURCES: CGS-CIMB RESEARCH

**Figure 11: CGS-CIMB's S-REIT sector comparison as at 30 May 2018**

| SREIT | Bloomberg Ticker | Price as at 30 May 18 | Mkt Cap (US $m) | Last reported asset leverage | Last stated NAV | Price / Stated NAV | Target Price (DDM-based) | Rec. | FY18F Yield | FY19F Yield | FY20F Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Hospitality** | | | | | | | | | | | |
| Ascott Residence Trust | ART SP | $1.11 | $1,788 | 36.1% | 1.22 | 0.91 | $1.16 | H | 6.2% | 6.5% | 6.6% |
| Ascendas Hospitality Trust | ASCHT SP | $0.77 | $651 | 32.2% | 0.92 | 0.84 | NA | NR | 7.6% | 7.5% | 7.7% |
| CDL Hospitality Trust | CDREIT SP | $1.65 | $1,481 | 33.2% | 1.51 | 1.10 | $1.92 | A | 5.9% | 6.6% | 7.0% |
| Far East Hospitality Trust | FEHT SP | $0.66 | $912 | 35.1% | 0.87 | 0.75 | $0.79 | A | 6.5% | 7.0% | 7.4% |
| Frasers Hospitality Trust | FHT SP | $0.69 | $963 | 33.4% | 0.77 | 0.90 | NA | NR | 7.2% | 7.5% | 7.7% |
| OUE Hospitality Trust | OUEHT SP | $0.80 | $1,085 | 38.7% | 0.76 | 1.05 | $0.92 | A | 6.4% | 6.8% | 7.0% |
| | **Simple Average** | | | **34.8%** | | **0.92** | | | **6.6%** | **7.0%** | **7.2%** |
| **Industrial** | | | | | | | | | | | |
| AIMS AMP | AAREIT SP | $1.39 | $709 | 33.1% | 1.53 | 0.91 | NA | NR | 7.4% | 7.9% | 7.9% |
| Ascendas REIT | AREIT SP | $2.64 | $5,766 | 34.4% | 2.12 | 1.25 | $2.85 | A | 6.1% | 6.2% | 6.4% |
| Cache Logistics Trust | CACHE SP | $0.80 | $635 | 38.5% | 0.71 | 1.13 | $0.80 | H | 7.5% | 7.5% | 7.6% |
| ESR-REIT | EREIT SP | $0.51 | $596 | 30.0% | 0.58 | 0.86 | $0.62 | A | 7.1% | 8.0% | 8.2% |
| Frasers Logistics & Industrial Trust | FLT SP | $1.03 | $1,425 | 30.5% | 0.91 | 1.13 | $1.24 | A | 6.9% | 7.2% | 7.3% |
| Keppel DC REIT | KDCREIT SP | $1.38 | $1,391 | 37.4% | 0.96 | 1.44 | $1.49 | A | 5.7% | 5.9% | 6.1% |
| Mapletree Industrial Trust | MINT SP | $1.96 | $2,756 | 33.1% | 1.47 | 1.33 | $2.12 | A | 6.0% | 6.2% | 6.6% |
| Mapletree Logistics Trust | MLT SP | $1.26 | $2,875 | 37.7% | 1.10 | 1.15 | $1.39 | A | 6.0% | 6.3% | 6.4% |
| Sabana Shariah | SSREIT SP | $0.43 | $338 | 37.0% | 0.57 | 0.75 | NA | NR | na | na | na |
| Soilbuild Business Space REIT | SBREIT SP | $0.66 | $520 | 40.6% | 0.64 | 1.03 | NA | NR | 7.7% | 7.7% | 7.7% |
| Viva Industrial Trust | VIT SP | $0.88 | $636 | 39.8% | 0.77 | 1.14 | NA | NR | 7.9% | 7.7% | 8.6% |
| | **Simple Average** | | | **35.6%** | | **1.24** | | | **6.8%** | **7.1%** | **7.3%** |
| **Office** | | | | | | | | | | | |
| CapitaLand Commercial Trust | CCT SP | $1.70 | $4,745 | 37.9% | 1.74 | 0.98 | $1.94 | A | 5.2% | 5.2% | 5.3% |
| Frasers Commercial Trust | FCOT SP | $1.36 | $896 | 35.3% | 1.51 | 0.90 | $1.50 | H | 7.1% | 7.1% | 7.2% |
| Keppel REIT | KREIT SP | $1.19 | $3,024 | 38.6% | 1.40 | 0.85 | $1.34 | A | 4.8% | 5.0% | 5.5% |
| OUE Commercial REIT | OUECT SP | $0.71 | $813 | 40.5% | 0.90 | 0.78 | $0.75 | H | 6.4% | 6.3% | 6.2% |
| Suntec REIT | SUN SP | $1.76 | $3,497 | 36.6% | 2.08 | 0.85 | $2.12 | A | 5.7% | 5.8% | 6.0% |
| | **Simple Average** | | | **37.8%** | | **0.87** | | | **5.8%** | **5.9%** | **6.0%** |
| **Retail** | | | | | | | | | | | |
| CapitaLand Mall Trust | CT SP | $2.10 | $5,557 | 33.5% | 1.93 | 1.09 | $2.25 | A | 5.3% | 5.3% | 6.0% |
| Frasers Centrepoint Trust | FCT SP | $2.22 | $1,533 | 29.2% | 2.03 | 1.09 | $2.41 | A | 5.6% | 5.8% | 5.9% |
| Mapletree Commercial Trust | MCT SP | $1.58 | $2,472 | 34.5% | 1.49 | 1.06 | $1.75 | A | 5.7% | 5.7% | 5.8% |
| SPH REIT | SPHREIT SP | $1.00 | $1,907 | 25.4% | 0.94 | 1.06 | $1.07 | H | 5.6% | 5.8% | 5.9% |
| Starhill Global REIT | SGREIT SP | $0.69 | $1,122 | 35.3% | 0.92 | 0.75 | $0.83 | H | 7.4% | 7.4% | 7.6% |
| | **Simple Average** | | | **31.6%** | | **1.01** | | | **5.9%** | **6.0%** | **6.2%** |
| **Retail Ex-Sin** | | | | | | | | | | | |
| CapitaLand Retail China Trust | CRCT SP | $1.59 | $1,151 | 36.7% | 1.58 | 1.01 | NA | NR | 6.5% | 6.7% | 6.9% |
| Lippo Malls Indonesia Retail Trust | LMRT SP | $0.32 | $670 | 35.0% | 0.30 | 1.04 | $0.33 | RD | 8.4% | 8.4% | 8.6% |
| Mapletree Greater China Commercial Trust | MAGIC SP | $1.16 | $2,722 | 36.2% | 1.38 | 0.84 | $1.30 | A | 6.4% | 6.6% | 6.9% |
| | **Simple Average** | | | **36.0%** | | **0.96** | | | **7.1%** | **7.2%** | **7.5%** |
| **Healthcare** | | | | | | | | | | | |
| First REIT | FIRT SP | $1.36 | $796 | 34.1% | 1.01 | 1.34 | $1.44 | H | 6.6% | 6.6% | 6.7% |
| Parkway Life REIT | PREIT SP | $2.72 | $1,227 | 38.0% | 1.72 | 1.58 | $3.07 | H | 4.5% | 4.6% | 4.7% |
| RHT Health Trust | RHT SP | $0.79 | $477 | 23.0% | 0.84 | 0.95 | $0.92 | H | 6.1% | 7.2% | 8.1% |
| | **Simple Average** | | | **31.7%** | | **1.29** | | | **5.7%** | **6.1%** | **6.5%** |

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG

## How would the enlarged trust look like?

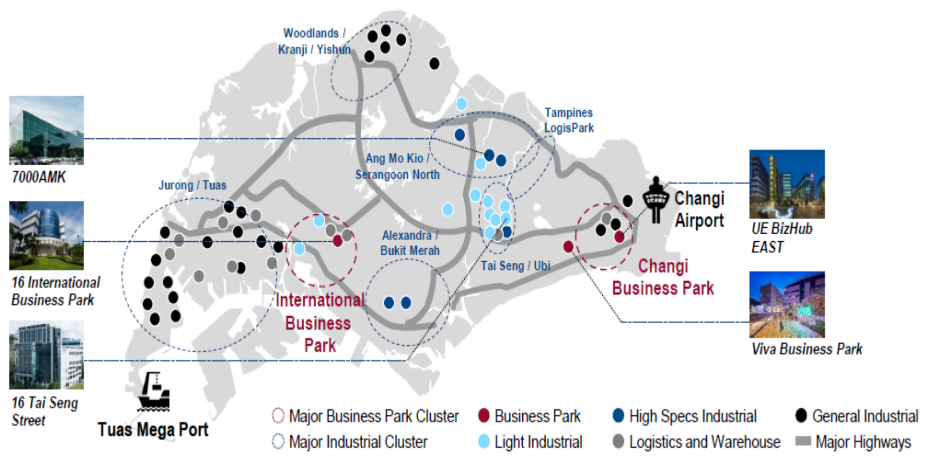
*Post-merger, we estimate that high specs industrial and business park would form 46% of the enlarged trust's AUM.*
*We forecast that the enlarged REIT would have a gearing of c.40% with weighted average all-in cost of 3.45% p.a. (as at end-FY19F), 10bp yoy lower than FY18F.*

We expect the post-merger EREIT to become the fourth-largest industrial S-REIT with a combined AUM of c.S$3bn and potential market cap of c.S$1.7bn. In fact, it would be the largest S-REIT with pure exposure to the Singapore industrial market. We believe that EREIT would remain a 100%-Singapore focused REIT in the next 12-24 months.

Including the potential acquisition of 15 Greenwich Drive, we estimate that the enlarged trust would have a portfolio of 57 properties across five different sub-asset classes, with an estimated total NLA of 12.4m sq ft.

As at 31 Mar 2018, EREIT's portfolio consisted of 47 properties with an estimated total NLA of 9.3m sq sf and a property value of S$1.65bn. VIT's portfolio consisted of nine properties with an estimated total NLA of 3.1m sq ft and a property value of S$1.28bn.

**Figure 12: The enlarged trust will have a diversified portfolio of scale with strong island-wide coverage across 56 properties (excluding 15 Greenwich Drive)**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 13: Proforma portfolio metrics of the enlarged trust[1]**

| | ESR REIT | VIVA iTRUST | Enlarged Trust (ESR REIT + VIVA iTRUST) | |
|---|---|---|---|---|
| No. of Properties | 47 | 9 | 56 | + 19.1% |
| Total GFA | c. 9.7m sq ft | c. 3.9m sq ft | c. 13.6m sq ft | + 40.2% |
| Asset Size | S$1.7bn | S$1.3bn | S$3.0bn | + 79.8% |
| No. of Tenants | 193 | 157 | 350 | +81.3% |

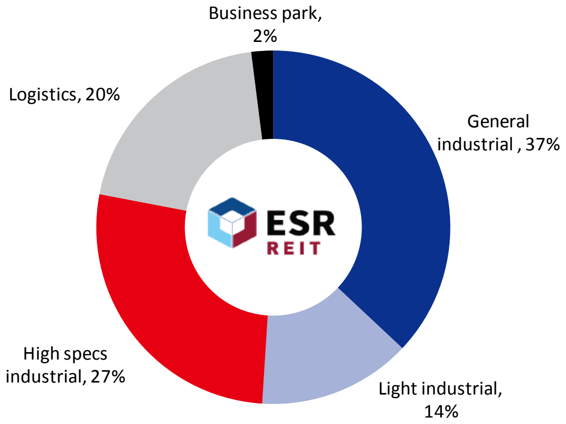
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]As at 31 Mar 2018

In terms of sub-segments, EREIT's AUM is diversified across major sub-assets*. General industrial is the largest sub-asset class for EREIT, forming 37% of its AUM (as at 31 Mar 2018). That said, we note that EREIT has been seeking to grow the high specs industrial sub-asset, as evident by the recent acquisition of 7000 Ang Mo Kio Avenue 5.

On the other hand, VIT's AUM is concentrated in business parks (we include the hotel component of UE BizHub East as business park). Business parks accounted for 68% of its AUM (as at 31 Mar 2018), and VIT has the highest proportion of business parks among the industrial S-REITs.

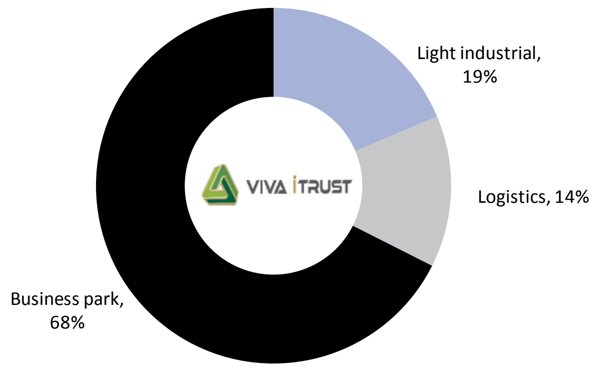
Post-merger, we estimate that high specs industrial and business parks would form 46% of the enlarged trust's AUM. Given Singapore's focus on higher value-added activities and industry 4.0, the fourth industrial revolution, we are positive on the higher concentration on high value-added tenant sectors. Pre-merger, high specs industrial and business parks formed 29% of EREIT's AUM.

**Figure 14: Pre-merger AUM of EREIT by sub-assets[1]: EREIT's AUM is diversified across major sub-assets**



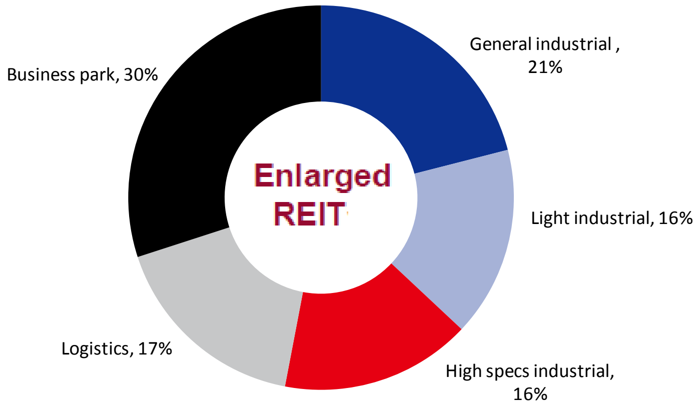

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]As at 31 Mar 2018

**Figure 15: Pre-merger AUM of VIT by sub-assets[1]: VIT is concentrated in business parks**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]As at 31 Mar 2018

**Figure 16: Post-merger pro forma AUM of enlarged trust by sub-assets: high specs industrial and business park would form 46% of the enlarged trust's AUM**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**We point out that in its latest Annual Report, EREIT has introduced a new sub-asset category, "High Specs Industrial". Accordingly, it has re-classified its portfolio into five sub-asset segments. Figure 17 depicts the description for each sub-asset class. This means that EREIT's sub-segments may not be historically comparable.*

**Figure 17: EREIT's sub-asset class definition**

| Sub-asset class | Description |
|---|---|
| General Industrial | General Industrial buildings are facilities dedicated to general and heavy manufacturing or factory activities. Such spaces also have a low percentage of the usable space which can be set aside for office use. |
| Light Industrial | Light Industrial properties are used for light industrial and manufacturing activities, with a low percentage of the facility's usable space set aside for office use. |
| Logistics/Warehouse | Logistics/Warehouse properties are typically equipped with high floor loading and also have a high floor-to-ceiling height. Such buildings can have vehicular ramp access and/or heavy-duty cargo lift access. |
| High Specs Industrial | High-specs Industrial facilities are mixed-use industrial buildings with a high proportion of space that can be allocated for office use. These building typically have facilities such air-conditioned units and sufficient floorboard, ceiling height and electrical power capacities to enable both office and manufacturing functions to be carried out concurrently. |
| Business Park | Business Parks are clusters of buildings and offices typically dedicated to business activities relating to high-technology, research and development (R&D) value-added and knowledge-intensive sectors. |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In terms of portfolio metrics, EREIT's portfolio occupancy stood at 90.7% (as at 31 Mar 2018) with a WALE (weighted average lease expiry) of 4.4 years. VIT's portfolio occupancy stood at 91.5% with a WALE of 3.0 years.

Given that business parks charge a higher rent, we estimate that VIT's average gross passing rent of S$3.30 psf pm is three times higher than EREIT's average gross passing rent of S$1.07 psf pm. Also, we note that EREIT's buildings are somewhat dated, with an weighted average age of 19.4 years vs. VIT's 8.6 years. This is not surprising as EREIT was the first independent industrial S-REIT which was listed back in 2006.

As at 1Q18, multi-tenanted buildings (MTB) and single-tenanted buildings (STB) made up 59% and 41% respectively of EREIT's GRI (gross rental income). Concurrently, MTB and STB accounted for 69% and 31% respectively of VIT's GRI.

Post-merger, we estimate that MTB and STB would respectively form 66% and 34% of the enlarged trust's FY19F GRI. In addition, we project that portfolio occupancy for the enlarged trust would stand at 94.3% with a WALE of 3.8 years. The enlarged portfolio would yield an average gross passing rent of S$1.91 psf pm (as at end-FY19F).

**Figure 18: EREIT portfolio metrics as at 31 Mar 2018**

| | |
|---|---|
| Total number of properties | 47 |
| Estimated total NLA | 9.3m sq ft |
| No. of tenants | 193 |
| WALE (by rental income) | 4.4 years |
| Weighted average land lease (by valuation) | 34.2 years |
| Weighted average age of buildings (by valuation) | 19.4 years |
| Weighted average portfolio occupancy | 90.7% |
| Total portfolio valuation[1] | S$1.65 bn |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

[1] Includes 7000 Ang Mo Kio Avenue 5 on a 100% basis, of which EREIT has an 80% economic interest

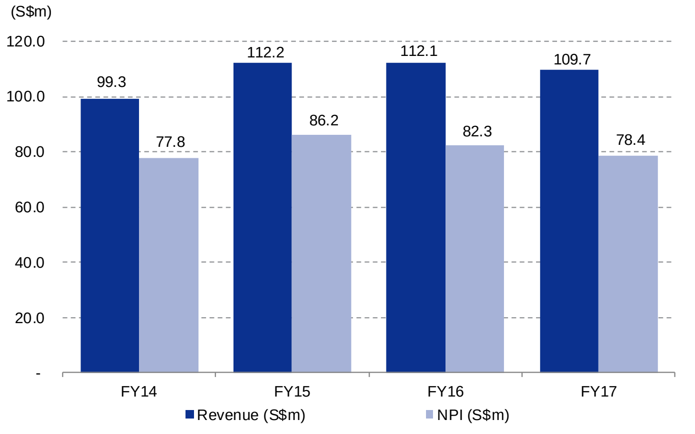
**Figure 19: VIT portfolio metrics as at 31 Mar 2018**

| | |
|---|---|
| Total number of properties | 9 |
| Estimated total NLA[2] | 3.1m sq ft |
| No. of tenants | 157 |
| WALE (by rental income) | 3.0 years |
| Weighted average land lease (by valuation) | 33.5 years |
| Weighted average age of buildings (by valuation) | 8.6 years |
| Weighted average portfolio occupancy | 91.5% |
| Total portfolio valuation | S$1.28 bn |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

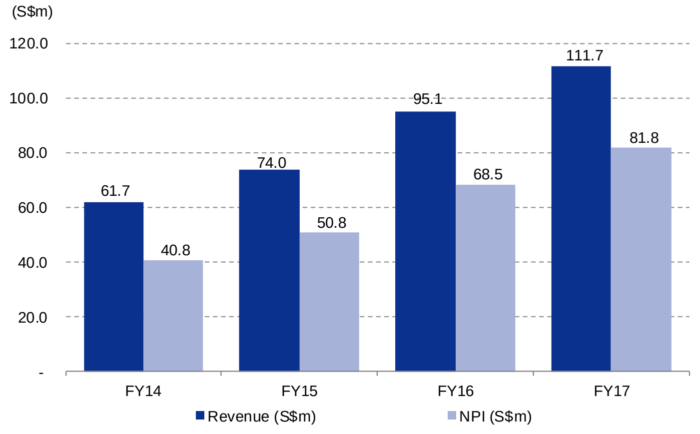
[2] Excludes the hotel component of UE BizHub East

**Figure 20: EREIT's historical revenue and NPI: EREIT and VIT have similar FY17 revenue and FY17 NPI profile**



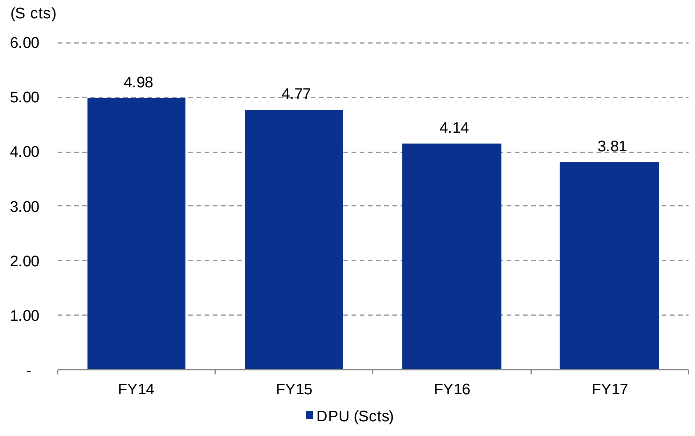

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 21: VIT's historical revenue and NPI**



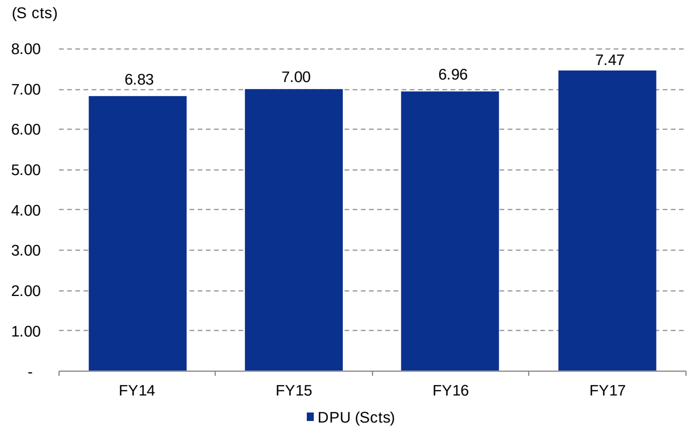

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 22: EREIT's historical DPU – adjusted for equity fund raising**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 23: VIT's historical DPU – adjusted for equity fund raising**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In terms of capital management, EREIT's gearing stood at 30.0% with a weighted average all-in cost of 3.75% p.a. (as at 31 Mar 2018). The lowered gearing follows the preferential offer in 28 Mar 2018 (199 new units for every 1,000 units at the issue price of S$0.54/unit to raise gross proceeds of S$141.9m).

In the meantime, VIT's gearing stood at 40.6% with a weighted average all-in cost of 4.0% p.a. We note that unlike EREIT, whose portfolio is fully unencumbered, only 8% of VIT's portfolio is unencumbered. Meanwhile, both REITs have hedged a high proportion of their respective borrowings against fixed rates.

Post-merger, we forecast that the enlarged REIT would have a gearing of c.40% with weighted average all-in cost of 3.45% p.a. (as at end-FY19F), 10bp yoy lower than in FY18F. With the refinancing of VIT's debt upon merger, the enlarged REIT would have a fully unencumbered portfolio with increased debt tenor of 2.5 years. As at 31 Mar 2018, EREIT's debt tenor stood at 1.8 years.

Lower cost of funding has been stated as one of the low-hanging fruits of the merger and we are already seeing the results borne. The merger will result in the conversion of all of VIT's secured debt (92% of VIT's AUM is encumbered) into unsecured debt. Post-refinancing, VIT's all-in finance cost of debt is expected to decrease to 3.7% p.a. (As at 1Q18. VIT's all-in borrowing costs was 4.0%).

**Figure 24: EREIT's capital management as at 31 Mar 2018**

| | |
|---|---|
| Gross borrowings (S$m) | 502.0 |
| Available committed facilities (S$m) | 213.0 |
| Gearing | 30.0% |
| Weighted average all-in cost of debt (%) p.a. | 3.75% |
| Weighted average debt expiry (years) | 1.8 |
| Interest cover (x) | 3.6 |
| Interest rate exposure fixed | 92.6% |
| Proportion of unencumbered investment properties | 100.0% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 25: VIT's capital management as at 31 Mar 2018**

| | |
|---|---|
| Gross borrowings (S$m) | 535.0 |
| Available committed facilities (S$m) | 50.0 |
| Gearing | 40.6% |
| Weighted average all-in cost of debt (%) p.a. | 4.0% |
| Weighted average debt expiry (years) | 2.2 |
| Interest cover (x) | 4.0 |
| Interest rate exposure fixed | 82.8% |
| Proportion of unencumbered investment properties | 8% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Our comprehensive re-work of EREIT's model

We have done a comprehensive re-work of EREIT's model and delineated the growth trajectory of the REIT. We have assumed that the merger with VIT would successfully go through. For simplicity – even though the manager expects the merger to be completed by 3Q18 – we incorporate the merger on "day one" of FY19F (FY19F would show the full-year effect of the merger).

Figures 26 and 27 show the GRI and NPI contributions/growth by sub-asset.

**Figure 26: Gross rental income by sub-asset**

| GRI by sub-asset (S$m) | FY17 | FY18F | FY19F | FY20F |
|---|---|---|---|---|
| General industrial | 38.2 | 45.0 | 48.0 | 49.0 |
| *% yoy chg* | | *18%* | *7%* | *2%* |
| Light industrial | 24.8 | 20.5 | 43.9 | 44.5 |
| *% yoy chg* | | *-17%* | *114%* | *1%* |
| Logistics/Warehouse | 29.9 | 33.7 | 52.9 | 53.5 |
| *% yoy chg* | | *13%* | *57%* | *1%* |
| High specs industrial | 14.7 | 37.1 | 38.1 | 38.5 |
| *% yoy chg* | | *153%* | *2%* | *1%* |
| Business Park | 1.9 | 1.9 | 86.0 | 86.8 |
| *% yoy chg* | | *2%* | *4317%* | *1%* |
| **Total** | **109.5** | **138.2** | **268.9** | **272.3** |
| *% yoy chg* | | *26%* | *95%* | *1%* |

SOURCES: CGS-CIMB RESEARCH

**Figure 27: NPI by sub-asset**

| NPI by sub-asset (S$m) | FY17 | FY18F | FY19F | FY20F |
|---|---|---|---|---|
| General industrial | 30.6 | 36.0 | 38.4 | 39.2 |
| *% yoy chg* | | *18%* | *7%* | *2%* |
| Light industrial | 16.1 | 13.3 | 32.3 | 32.7 |
| *% yoy chg* | | *-17%* | *142%* | *1%* |
| Logistics/Warehouse | 20.9 | 23.6 | 40.8 | 41.3 |
| *% yoy chg* | | *13%* | *73%* | *1%* |
| High specs industrial | 10.3 | 26.0 | 26.6 | 27.0 |
| *% yoy chg* | | *153%* | *2%* | *1%* |
| Business Park | 1.7 | 1.8 | 57.3 | 57.8 |
| *% yoy chg* | | *2%* | *3171%* | *1%* |
| **Total** | **79.6** | **100.6** | **195.5** | **198.0** |
| *% yoy chg* | | *26%* | *94%* | *1%* |

SOURCES: CGS-CIMB RESEARCH

**Figure 28: Portfolio metrics**

| Portfolio metrics | FY13 | FY14 | FY15 | FY16 | FY17 | FY18F | FY19F | FY20F |
|---|---|---|---|---|---|---|---|---|
| Gross rental rate (S$ psf pm) | 1.14 | 1.10 | 1.28 | 1.32 | 1.07 | 1.33 | 1.91 | 1.93 |
| Occupancy (%) | 97.3% | 95.1% | 92.8% | 92.1% | 91.8% | 91.7% | 94.3% | 93.2% |
| NLA (m sq ft) | 7.3 | 7.9 | 7.9 | 7.7 | 9.3 | 9.4 | 12.4 | 12.6 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

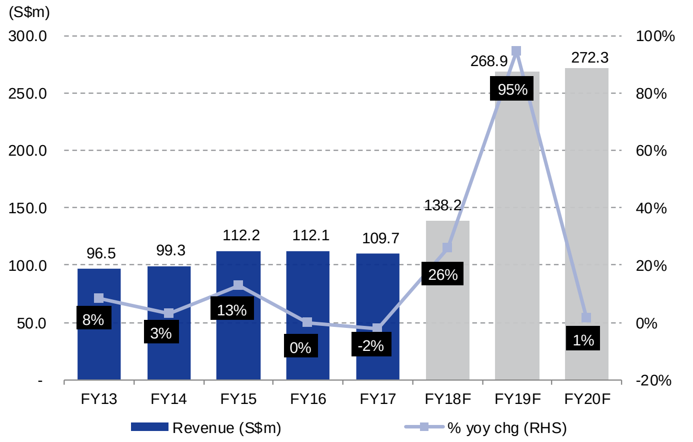
For FY18F, we project a 26%/28% yoy increase in GRI/NPI respectively as acquisitions in the prior year outweigh divestments, higher vacancies and negative rental reversions from preceding quarters. We expect a 13% lift in FY18F DI (distribution income) as higher management fees, financing expenses and coupons payable to perpetual securities holders "eat" into the higher NPI. However, owing to a higher unit base from the preferential offer in 28 Mar 2018, we project FY18F DPU to drop by 6.3% to 3.57 Scts.

For FY19F, with the addition of VIT's portfolio, we project NPI/DI to rise by 94%/125%. While the increase is propelled by the VIT merger, we have also penciled in same-store improvements for both EREIT's and VIT's portfolios as we view that the challenging industry conditions would abate by end-FY18F. Accounting for the enlarged unit base (due to consideration units for the merger), we project FY19F DPU to increase by 12.8% to 4.03 Scts.

Backed by a larger and more diversified AUM, we believe that EREIT would progressively enjoy lower cost of debt as it refinances borrowings which are due for maturity. We assume that EREIT's all-in cost of debt would decrease by 10bp yoy to 3.45% in FY19F.

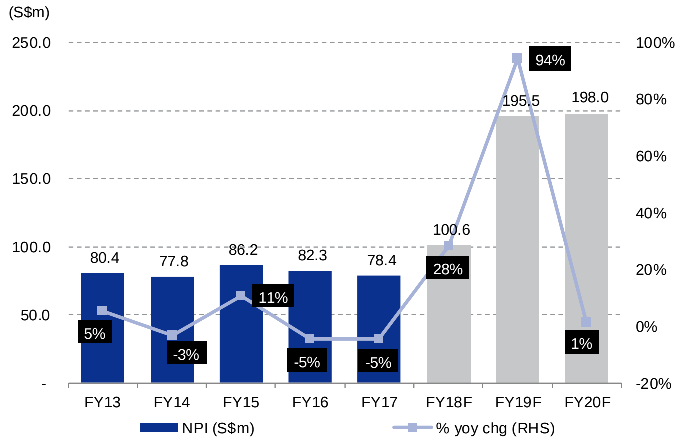
Lastly, we have assumed that 100% of manager fees would be paid in cash.

Figure 29: EREIT's revenue forecasts



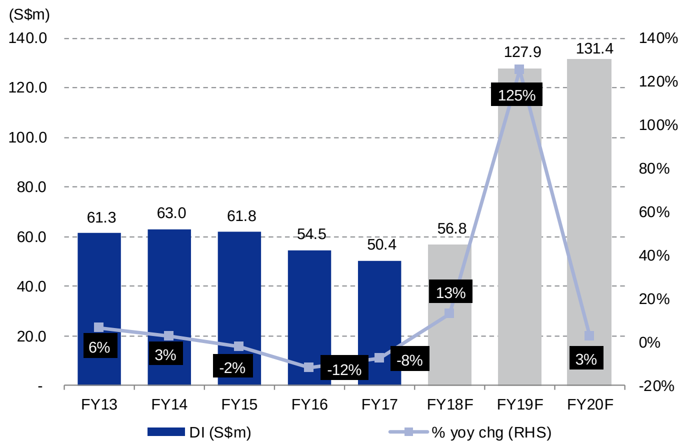

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 30: EREIT's NPI forecasts



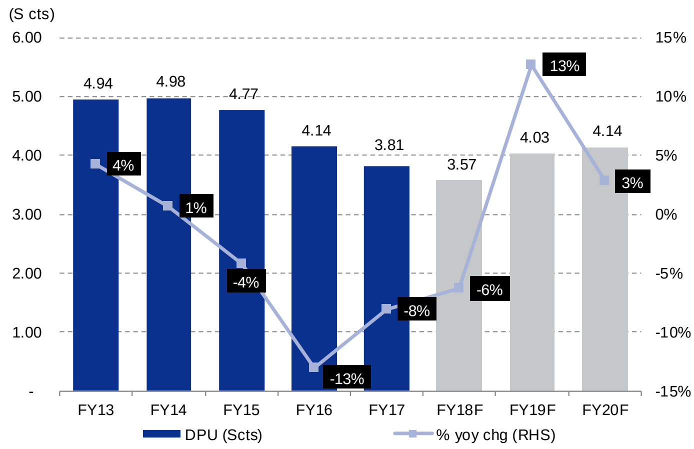

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 31: EREIT's DI forecasts




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 32: EREIT's DPU forecasts




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## FY18F to be a work-in-progress

*Despite a projected 13% yoy increase in DI, we expect FY18F DPU to decrease by 6.3% to 3.57 Scts due to a higher unit base from the preferential offer on 28 Mar 2018. The increase in DI is mainly led by acquisitions, partially offset by divestments, higher vacancies and negative rental reversions in the preceding quarters.*

FY18F is set to be a "work-in-progress" as additions to the portfolio are counteracted by on-going weakness and capital management actions. We expect FY18F NPI to increase by 28% yoy to S$100.6m, driven by inorganic contributions from 7000 Ang Mo Kio Ave 5, 8 Tuas South Lane and 15 Greenwich Drive as well as increased contributions from 120 Pioneer Road which completed its asset enhancement initiative (AEI) in Sep 2017.

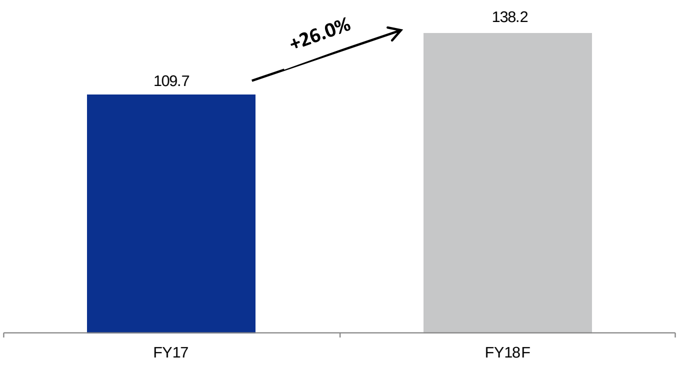
This is partially offset by divestment of 9 Bukit Batok St 22 (Mar 2018) as well as three divestments in FY17, conversion of 16 Tai Seng from a master lease to a multi-tenanted lease (Jun 2018), higher vacancies in 21B Senoko Loop and 3 Pioneer Sector 3, and continued negative rental reversions for the leases due for expiry in FY18F. We factor in an average -6% reversion.

We expect FY18F DI to increase by 13% yoy to S$56.8m as the higher NPI is chipped away by higher management fees and financing expenses (in view of higher interest rates). That said, 92.6% of EREIT's interest rates are fixed (as at 31 Mar 2018).

Additionally, we factor in S$6.9m of coupon payable to EREIT's perpetual securities holders. Recall that EREIT issued S$150m 4.6% perpetual securities in Nov 2017. We highlight that there is an accrued S$1.1m coupon payable in FY17 which we assume would be paid in FY18F.

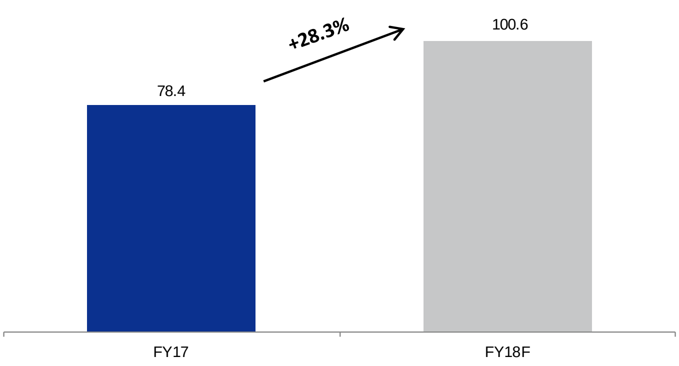
Despite the increase in DI, we forecast FY18F DPU to decrease by 6.3% yoy to 3.57 Scts due to the issuance of 262.8m new units from the preferential offer on 28 Mar 2018.

**Figure 33: Driven by acquisitions, we expect revenue to increase by 26% yoy for FY18F…**



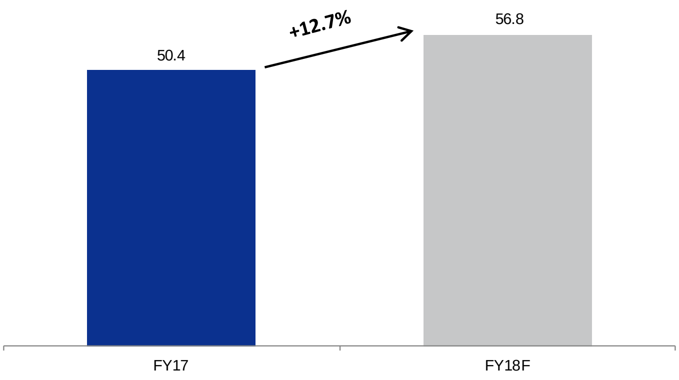

SOURCES: CGS-CIMB RESEARCH

**Figure 34: … which would lead to a 28% lift in FY18F NPI**



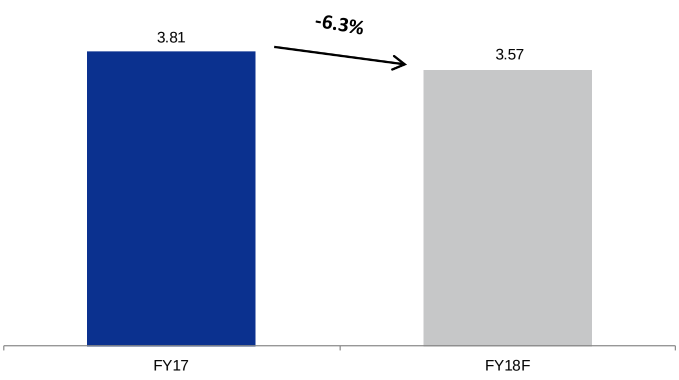

SOURCES: CGS-CIMB RESEARCH

**Figure 35: We expect DI to grow 13% as the higher NPI is chipped away by borrowing costs and the perpetual securities**




SOURCES: CGS-CIMB RESEARCH

**Figure 36: We forecast FY18F DPU to decrease by 6.3% due to the preferential offer on 28 Mar 2018.**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We detail the positive "delta" to EREIT's FY18F NPI below:

- **Inorganic full-year contribution from 7000 Ang Mo Kio Ave 5.** FY18F would see the full-year contribution of 7000 Ang Mo Kio (acquisition of the 80%-stake in the property was completed on 14 Dec 2017 for S$240m).
- 7000 Ang Mo Kio is a high-specs industrial building located within a mature industrial estate in the north-eastern part of Singapore. It comprises of 6-storey multi-tenanted production block and a 5-storey ancillary office block with NLA of c.835k sq ft. As at acquisition date, the property had a WALE of 5.5 years and was tenanted to high-value added manufacturers, data centre operators, power/utilities companies and telecommunication companies such as Heptagon Micro Optics, SP Servces and Starhub. We were encouraged that occupancy for 7000 Ang Mo Kio grew by 2.3% to 94.2% as at end-Mar 2018. Nonetheless, we are factoring in stable occupancy of 93% for the property. We estimate an initial NPI yield of 6.5% for the property, with average gross rents of c.S$2.5 psf pm.
- **Inorganic full-year contribution from 8 Tuas South Lane.** EREIT completed the acquisition of 8 Tuas South Lane on 14 Dec 2017 for S$106.4m (S$95m for the property and S$11.4m for the estimated upfront land premium payable for the balance of the first 30-year lease term).
- Located in close proximity to the Tuas Megaport (Singapore's future global port and international maritime hub which would progressively open from 2021), the property is classified as general industrial and comprises five detached factories, one block of 8-storey warehouse and four blocks of dormitory buildings (total NLA of c.768k sq ft). About 76% of the property is leased to water treatment specialist, Hyflux, for 15 years, while the balance c.24% is also leased to the group for three years. For the longer lease tenure,

we understand that there would be a 4% rental step-up on the fourth-year anniversary of the lease. Thereafter, there would be a 2% step-up p.a. from the fifth-year anniversary of the lease. Altogether, the two leases would translate to an initial NPI yield of c.6.5% and average gross rents of c.S$1 psf pm.

- At this juncture, we assume that Hyflux would continue to meet its rental obligations (EREIT has been receiving prompt rental payments and there are currently no arrears). Hyflux has recently filed for court protection under a 30-day moratorium against creditors. As at 31 Mar 2018, Hyflux is the second-largest tenant for EREIT, accounting for 6.8% of GRI. If we were to exclude losses from Tuaspring (the loss-making desalination and power plant is currently classified as asset-held-for-sale in Hyflux's books), we calculate that Hyflux's annualised 1Q18 EBITDA-to-interest coverage ratio would be 1.1x (excluding coupons for its perpetual securities). As at 31 Mar 2018, its net gearing stood at 1.3x with cash-on-hand of S$233.8m.
- In the worst-case scenario in which Hyflux is unable to meet its rental obligations, we believe that EREIT could draw down Hyflux's security deposits to offset loss of income in the interim (it has, on average, three months' security deposits for the two leases). As the asset is somewhat specialised, we view that it may not be easy for EREIT to find a replacement tenant quickly. Assuming that the REIT is able to replace half the rental income (as compared to the Hyflux lease), we estimate there could be c.3% downside to our FY19-20F DPU.
- In addition, we note that that the scheme arrangement (EREIT and VIT is merging by way of a trust scheme arrangement) contains material adverse effect clauses, one of which states that the merger is conditional upon EREIT's revenue (on a 12-month rolling-basis to effective date of scheme, which is assumed to be in Sep 2018) to not be 10% less than the S$115.6m for the 12-month period to 31 Mar 2018. We believe that even in the worst-case scenario – in which Hyflux is unable to meet its rental obligations *tomorrow* – the material adverse effect clause would not be invoked as five months of income void from Hyflux would account for c.2.8% of GRI. In any case, EREIT is also able to draw down the security deposits to offset the absence of income.
- The acquisitions of 7000 Ang Mo Kio and 8 Tuas South Lane were partially financed through the issuance of S$150m 4.6% perpetual securities in Nov 2017 and the preferential offer in Mar 2018 (199 new units for every 1,000 units at the issue price of S$0.54/unit to raise gross proceeds of S$141.9m).

**Figure 37: Acquired on 14 Dec 2017, 7000 Ang Mo Kio Avenue 5 is a high-specs industrial building in the north-eastern Singapore**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 38: 8 Tuas South Lane, a general industrial building, was also acquired on 14 Dec 2017 and currently leased to Hyflux**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- **Inorganic contribution from 15 Greenwich Drive.** EREIT has proposed the acquisition of 15 Greenwich Drive for S$95.8m (S$86.2m for the property and S$9.6m for the estimated upfront land premium payable for the balance lease term). We believe that the acquisition could be completed by Aug 2018, and EREIT would see five months of contributions from the asset. The property is a four-storey multi-tenanted ramp-up logistics facility with ancillary offices (total GFA of c.455k sq ft), located within Tampines LogisPark. It has a WALE of 3.5 years and is 100% occupied by two tenants. We estimate an initial NPI yield of 6.1% for the property, with average gross rents of c.S$1.5 psf pm. We assume that the property would be funded by debt.

- **120 Pioneer Road has completed AEI.** 120 Pioneer Road, a multi-tenanted general industrial building with NLA of c.219k sq ft, has completed its S$5m-AEI in Sep 2017. AEI works primarily involved upgrading of the building's façade and enhancement of efficiency/infrastructure with new passenger and cargo lifts. We expect higher contributions from the property; we project occupancy to average 60%/80% in FY18F/FY19F (occupancy as at end-2017 was at 36%).

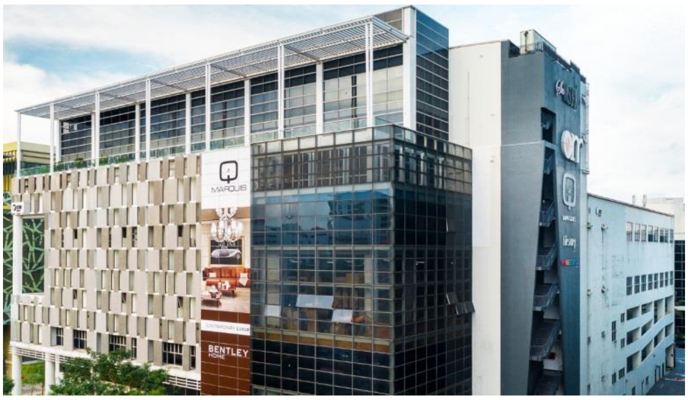
The above would be partially offset by these "negative" delta:

- **Divestment of 9 Bukit Batok St 22.** The increase in NPI from the acquisitions would be partially offset by divestment of 9 Bukit Batok St 22 (divested in 05 Mar 2018) as well as full-year effect of divestment of three properties in FY17 (23 Woodlands Terrace on 7 Dec 2017, 87 Defu Lane 10 on 16 Nov 2017 and 55 Ubi Ave 3 on 29 Aug 2017). Collectively, we estimate that these four properties accounted for c.5% of FY17 GRI.
- **16 Tai Seng St to be converted to MTB; potential upside from maximisation of "white" space.** We note that the Nobel Design master lease in 16 Tai Seng (contributes to 4.7% of GRI) would expire in Jun 2018. Management has guided that the property would be converted into a multi-tenanted building (MTB). The tenant has indicated that it is likely to downsize its space requirements. Moreover, the renewed rents are likely to be below the current master lease rent, which means that income from the property would be hit by a triple-whammy of lower rental, lower space taken by Nobel and efficiency loss.
- Factoring in an 85% building efficiency ratio, we assume 16 Tai Seng to achieve an average occupancy of 70% for FY18F and 90% for FY19F (we believe that the property can be backfilled due to its prime location). Moreover, we see potential upside from 16 Tai Seng as one-third of existing GFA or some 70k sq ft can be used as "white" space (space allowable for mixed uses). Currently, only c.5k sq ft of space is used as retail. We understand that retail rents in the area could be 3-4x higher than rents for the industrial component (low-S$2 psf pm). Hence, an AEI could lift property valuation and income.
- **21B Senoko Loop is currently vacant.** FY18F would also be affected by the pre-termination of the Tellus Marine lease in 21B Senoko Loop in 2Q17. In FY17, the manager had drawn down Tellus Marine's security deposit to offset the loss of rental income. The property contributed c.2.4% of FY17 GRI. The REIT is pro-actively seeking replacement tenants and we assume that the asset could secure 100% committed occupancy by end-FY18F.
- 21B Senoko Loop is a general industrial building which underwent AEI works (costing S$12.8m) in Nov 2013. The AEI was completed in Mar 2015, with the then-sitting tenant, Tellus Marine, leasing the entire complex for 10 years. The AEI comprise the construction of a four-level industrial warehouse and a detached single-level factory building which increase GFA by c.70% to c.196k sq ft.
- **Non-renewal of CWT lease in 3 Pioneer Sector 3.** Additionally, FY18F would be affected by non-renewal of the CWT lease in 3 Pioneer Sector 3 in 3Q17. As such, occupancy for the property fell to 86% as at end-FY17 (FY16:100%). The asset contributed c.7.6% of FY17 GRI while we estimate that CWT accounted for more than half of the asset income (In 2Q17, CWT was listed as EREIT's third largest tenant accounting for 3.9% of Jun 2017 rental income). Given the asset-specifications, we believe that EREIT would be able to rapidly backfill the property.
- 3 Pioneer Sector 3 is a logistics building which underwent AEI works for S$45.4m in May 2013 (the largest AEI to date for EREIT). The AEI was completed in Jun 2014 and comprised the construction of a four-storey ramp-up warehouse which almost doubled the property's NLA to c.645k sq ft. Upon completion, CWT leased the ramp-up warehouse for three years.
- **Negative rental reversions.** We baked in average negative rental reversion of 6% for the leases due for renewal in FY18F. However, we observed that

the extent of reversion is narrowing, with EREIT reporting -0.2% reversion for leases renewed in 1Q18 (FY17: -15.8%).

- In line with the other industrial S-REITs' guidance, EREIT believes that the competitive leasing market would abate in late-2018, and that negative rental reversions could possibly bottom by then.

**Figure 39: 16 Tai Seng St, a light industrial building, would be converted into a MTB when its master lease expires in Jun 2018**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 40: 3 Pioneer Sector 3, a logistics building, was affected by the non-renewal of the CWT lease in 3Q17**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

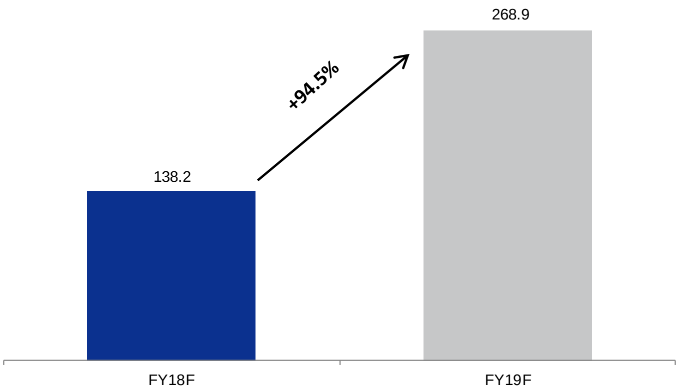
## We forecast 12.8% increase in FY19F DPU with the merger with VIT

*Crystal-balling into FY19F, we forecast FY19F DPU to increase by 12.8% with the addition of VIT's portfolio. We also pencil in same-store improvements for EREIT's and VIT's portfolios as we view that the challenging industry conditions would abate by end-FY18F.*

With the addition of VIT's portfolio (assume merger would be completed at the start of FY19F), we expect EREIT's FY19F NPI/DI to rise by 94%/125% to S$195.5m/S$127.9m. While the increase is propelled by the VIT merger, we also penciled in same-store improvement for EREIT's and VIT's portfolio as we view that the challenging industry conditions would abate by end-FY18F.

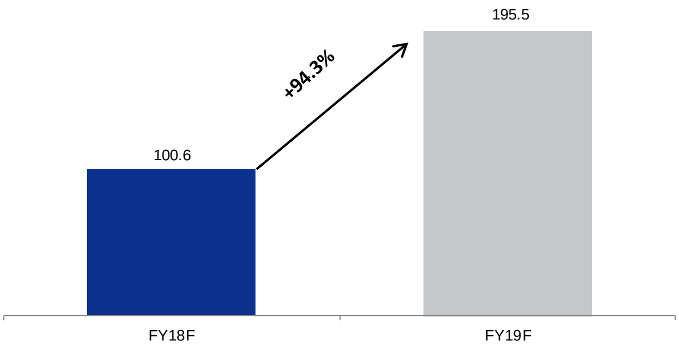
However, accounting for the enlarged unitbase – 1,561.2m new EREITs units would be issued for the merger with VIT and 23.8m of acquisition fee in units payable to EREIT manager – we estimate FY19F DPU to increase by 12.8% to 4.03 Scts. In addition, we have assumed that 100% of manager fees would be paid in cash.

**Figure 41: We expect FY19F revenue to almost double with the addition of VIT's portfolio**



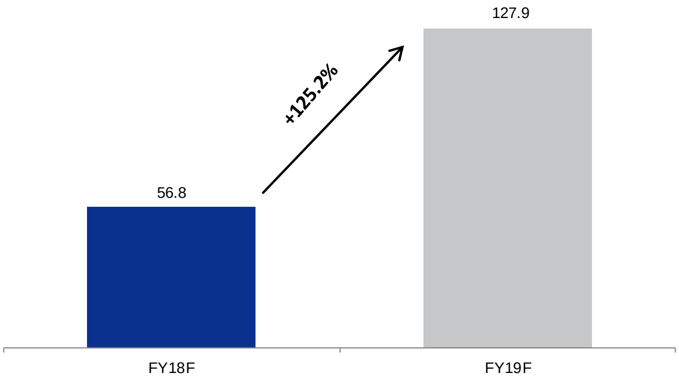

SOURCES: CGS-CIMB RESEARCH

**Figure 42: Likewise, we expect the same for FY19F NPI. We have pencilled in same-store improvements for the organic portfolios**



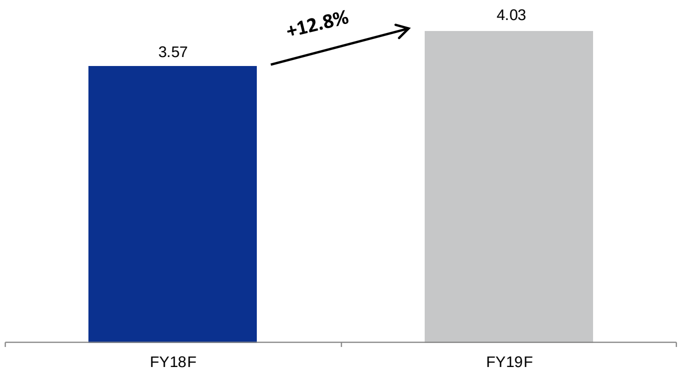

SOURCES: CGS-CIMB RESEARCH

**Figure 43: We forecast FY19F DI to expand by 125%**




SOURCES: CGS-CIMB RESEARCH

**Figure 44: Accounting for the enlarged unitbase, we estimate FY19F DPU to increase by 13% yoy**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In relation to EREIT's original portfolio, we expect rental reversion for leases due for renewal in FY19F to be flat, on average. We have also penciled in 2-3% pt increase in portfolio occupancy. This is driven by increase in occupancies in the aforementioned properties (120 Pioneer Road, 16 Tai Seng, 21B Senoko Loop and 3 Pioneer Sector 3) as well as uptick in occupancies in the high-specs industrials sub-segment. Moreover, there could some upside from 79 Tuas South St 5 (general industrial) as we have not factored in any occupancy. 79 Tuas South has been vacant since FY17.

- **30 Marsiling Industrial Estate Rd 8 completes AEI.** There would also be incremental contribution from 30 Marsiling Industrial Estate Rd 8 when it completes its AEI at the start of FY19F. The AEI, which is expected to cost c.S$12m, will facilitate the addition of two quality tenants: Aptiv, a global technology company and FormFactor, a Nasdaq-listed company. The addition will boost the occupancy of the property to 100% for a 5-year period (end-17: 82%). Following the completion of the AEI, the building will be reclassified from general industrial to high-specs industrial. Post-AEI, the asset is expected to generate c.6% NPI yield and higher average gross rents estimated at c.S$1.80 psf pm (pre-AEI: estimated at c.S$1.55psf pm).

Turning our attention to VIT, we highlight the following points. To re-cap, VIT's portfolio (as at 31 Mar 2018) comprises nine properties with a total GFA of 3.9m and property value of S$1.28bn.

- **About 31% of VIT's FY19F GRI is tied to single-tenanted/master leases.** We estimate that c.31% of VIT's FY19F GRI is tied to single-tenanted/ master leases which offer an average of 1.5-2.0% rental escalation p.a. The three other properties (UE BizHub East, Viva Business Park and Jackson Square) account for the balance of c.69% of GRI and are on multi-tenanted leases.
- We note that there would only be one master lease expiring over FY18-20F. Specifically, the Mauser Singapore master lease, which accounts for 1.6% of VIT's FY19F GRI, would expire in Jun 2019, with an option to be renewed for a further five years. We believe that the master lease would be extended.

- **UE BizHub East.** We consider UE BizHub East and Viva Business Park to be the crown jewels in VIT's portfolio. UE BizHub East is a mixed-used integrated development located in the heart of Changi Business Park (one of the only two, the other being ONE@Changi City). The business park component of the development comprises two nine-storey office towers and a retail podium (total NLA of c.499k sq ft). The property is directly linked to Downtown MRT station and can also be accessed via Expo MRT station. Key tenants include MNC technology conglomerate, Cisco Systems, British MNC Telco services, BT and Mizuho Bank.
- As at end-FY17, blended occupancy of UE BizHub East (business park component) was 90% with estimated average gross rent of S$4.60-4.80 psf pm (blended retail and business park rents). Retail space makes up c.20%

of the business park component, the remainder being the business park space. With neighbouring ONE@Changi City being relatively full, we project blended occupancy for UE BizHub to improve to 94% in FY19F. We estimate that c.50% of UE BizHub East is due for renewal in FY19F; we factor in an average positive rental reversion of 10%. We project that UE BizHub East would account for 23% of VIT's FY19F GRI.

- We note that income support for UE BizHub East (business park component) would expire in Nov 2018. Under the income support, VIT would essentially receive the differential between the agreed c.S$27m NPI (for FY18F) and actual NPI that the property generates. We estimate that the income support implies average gross rents of S$6.50 psf pm and occupancy of 95%. Nonetheless, we believe that organic improvements from UE BizHub East and Viva Business Park would partially make up for the absence of income support.

- **Viva Business Park.** Viva Business Park is located in the eastern part of Singapore and is the only business park development in the vicinity of the mature Bedok housing estate. It comprises six industrial blocks with total NLA of c.1.13m sq ft. Key tenants include data centre operator, 1-Net, retailer DFS Venture and DTZ Facilities and Engineering.
- Formerly known as Technopark@Chai Chee, the business park was renamed following an AEI which maximised the "white" space of the property. The AEI, which was conducted in three phases, commenced in May 2015. It involved the conversion of unutilised areas (c.160k sq ft) into commercial spaces at three of the six blocks; and aimed to transform the business park into a "work-play-eat-shop" destination in the Chai Chee neighborhood. Total cost for the AEI was more than S$90m (including c.S$56m incurred for development charge for the change in use of the property). VIT manager then targeted S$9.8m incremental NPI from the AEI. By our estimates, we believe that it is close to achieving this.
- As at end-FY17, blended occupancy of Viva Business Park was 79% with estimated average gross rent of S$3.20 psf pm (blended retail and business park rents). Retail space, which makes up c.15% of the property's NLA, is almost fully occupied. We project blended occupancy to improve to 87% in FY19F. We estimate that over 30% of Viva Business Park is due for renewal in FY19F; we factor in an average positive rental reversion of 7%. We project that Viva Business Park would account for 39% of VIT's FY19F GRI.

- **Jackson Square.** Jackson Square is located in Toa Payoh, the central region of Singapore. It comprises four blocks of light industrial buildings, ranging from two to six storeys, with a NLA of c.345k sq ft. The property represented VIT's inaugural acquisition and was acquired for S$80m in Nov 2014. At the time of acquisition, the vendor of Jackson Square, Jackson International Private Limited (JIPL) agreed to provide a 5-year rental income support for Jackson Square. Accordingly, JIPL would pay VIT the rental differential if gross rental income for Jackson Square fall below S$11.6m.
- In May 2017, VIT entered into a settlement agreement with JIPL under which the REIT would receive an aggregate S$4.9m payment and JIPL would be discharged from the obligations under the rental support agreement. As at 1Q18, VIT has distributed the entire settlement agreement sum to unitholders.
- As at end-FY17, occupancy of Jackson Square was 86% with estimated average gross rent of S$2.40 psf pm. As VIT has proved that it is able to backfill the vacated space, we project occupancy to improve to 91% in FY19F (we also considered the property's prime location). We estimate that some 50% of Jackson Square is due for renewal in FY19F; we factor in an average positive reversion of 4%. We project that Jackson Square would account for 8% of VIT's FY19F GRI. Key tenants include private education centre PSB Academy (PSBA), MNC electronics contract manufacturer, Foxconn and TelcoTech company, MyRepublic.

**Figure 45: UE BizHub East is a mixed-use integrated development located in the heart of Changi Business Park**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 46: Viva Business Park is the only business park development in the mature Bedok housing estate**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## What are the potential pitfalls of the merger?

As with all M&As, one would acquire the good with the bad. While the merger is yield-accretive for EREIT, it is NAV-dilutive. We project FY19F NAV to shrink to S$0.50/unit (FY18F: S$0.58/unit). This is because EREIT is acquiring VIT at implied 1.26x current P/BV (refer to overleaf Transaction summary of the merger).

We also note that income support for UE BizHub East (business park component) would expire in Nov 2018. On an annualised basis, the income support forms around 11% of VIT's FY18F NPI. Nonetheless, we believe that organic improvements from UE BizHub East and Viva Business Park would partially make up for the absence of income support in FY19F.

In addition the underlying land leases at VIT's Viva Business Park (27% of its AUM) and Jackson Square (6% of its AUM) are relatively short at 13.3 years and 11.4 years respectively. That said, we believe that successful land lease extensions could unlock value in VIT. We also point out that the weighted average land lease of EREIT's portfolio is similar to VIT's, at 34.2 years vs. 33.5 years.

Lastly, we acknowledge that the merger impact on EREIT's valuation is only marginally positive.

## What's next after VIT?

Post-VIT merger, investors are curious about EREIT's next steps and wonder whether the REIT would undertake another M&A in the near future. Prior to VIT, EREIT were in M&A discussions with SSREIT. However, talks fell through in Nov 2017.

As there are other small-mid cap industrial S-REITs which count both Chinese property tycoon, Tong Jinquan and ESR (developer-sponsor of EREIT) as significant unitholders (à la EREIT and VIT), we would not be surprised if EREIT targets these names following its integration with VIT. Moreover, these independent REITs could be more willing to merge after seeing the benefits of the VIT merger.

Of these REITs, we note that ESR emerged as a significant unitholder of SSREIT in Mar 2017. Bloomberg estimates that ESR currently has a c.7.9% stake in SSREIT. Tong Jinquan, who owns c.50% of VIT and c.18.3% in EREIT, also has a 6.2% interest in SSREIT. He has another 6.7% interest in SBREIT.

Furthermore, while ESR does not have a stake in CACHE, we note that CACHE manager is 60% owned by real estate fund manager, ARA Asset Management. Global private equity firm, Warburg Pincus, who is the major shareholder of ESR, is also the largest shareholder in ARA Asset Management. It owns 30.7% stake in ARA.

Looking ahead to the next 12-18 months, in terms of strategic priority, we understand that EREIT manager would focus on successfully integrating VIT into its portfolio. Management noted that such integrations often take 3-6 months. EREIT manager would also focus on pro-actively managing the enlarged trust's assets and look at AEI opportunities to unlock value. We identified some of the potential AEIs the REIT could undertake:

- AEI at 7000 Ang Mo Kio Ave 5 which has untapped c.495k sq ft of GFA
- AEI at 16 Tai Seng St to maximise its "white" space. Some c.70k sq ft of the building can be used as "white" space. Currently, only c.5k sq ft of space is used as retail
- AEI at Viva Business Park to extend the land lease
- AEI at Jackson Square to extend the land lease

Next, the enlarged trust would continue to evaluate single-asset acquisitions. It could look to acquire S$200m-400m of assets p.a., with its focus in the next 12-24 months still primarily being Singapore.

Overseas acquisitions through pipeline from sponsor – ESR manages c.10m sq m of projects owned and under development across China, South Korea, Japan – as well as M&As would be opportunistic in nature. Through it all, EREIT remains intent to grow though it has not guided a hard number for its AUM target.

**Figure 47: Singapore-focused small-mid industrial S-REITs which could be potential M&A targets for EREIT**

| REIT | AUM as at 31 Mar 2018 (S$bn) | Location of properties (by valuation) | Tong's estimated stake | ESR's estimated stake |
|---|---|---|---|---|
| AAREIT | 1.45 | 16% in Australia<br>84% in SG | Nil | Nil |
| CACHE | 1.39 | 20% in Australia<br>1% in China<br>79% in SG | Nil | Nil |
| SBREIT | 1.11 | 100% in SG | 6.7% | |
| SSREIT | 0.94 | 100% in SG | 6.2% | 7.9% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

## Transaction summary of the merger

EREIT has proposed a merger with VIT by way of a trust scheme arrangement; this would potentially be the first M&A in S-REIT history. The scheme consideration payable to VIT unitholders is S$0.96/unit on an ex-distribution basis. This implies an equity value of c.S$936.7m for VIT or 1.26x current P/BV.

The scheme consideration will be satisfied via 10% cash and 90% through the issuance of new EREIT units at an issue price of S$0.54/consideration unit. This implies a gross exchange ratio of 1.778x post-adjustment for the cash consideration.

Post-merger, VIT will become a sub-trust of EREIT and will be delisted. We also note that prior to the merger, EREIT and VIT can continue to make distributions as in the ordinary course of business (with the exception of proceeds from the sale of properties).

In addition, sponsor ESR will acquire VIT manager and property manager for a total of S$62m cash. The key management of VIT manager will also be joining EREIT manager.

Acknowledging that the consolidation of managers is a critical bottleneck for REIT mergers, we view the manager arrangements favourably. Among the independent industrial S-REITs, we note that key management generally have a stake in the REIT manager. Hence, the buy-out of the REIT managers (read windfall for management) and further job security/longevity could help to pave the way for future REIT M&As.

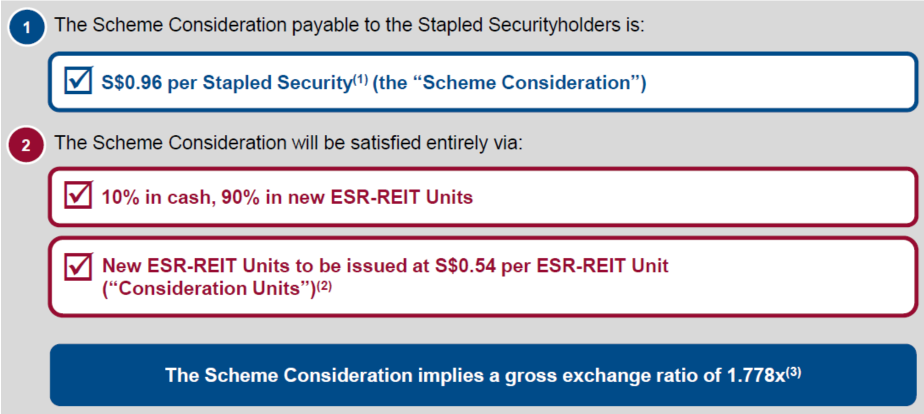
We estimate that the S$62m cash consideration for VIT manager implies estimated 13x trailing EV/EBITDA and 4.8% EV/AUM. This compares to the i) estimated 12x trailing EV/EBITDA and 3.5% EV/AUM for the internalisation of Croesus Retail Trust manager in Aug 2016, and ii) take-out valuation of 18x trailing EV/EBITDA and 6% EV/AUM for real estate fund manager, ARA Asset Management in Apr 2017.

Tong Jinquan, who owns an effective c.33.4% stake in VIT manager, will use a portion of his monies from the sale of VIT manager to subscribe for 25% of

EREIT manager. Hence, this ensures that Tong would still have some form of "influence" over both the REIT and the manager.

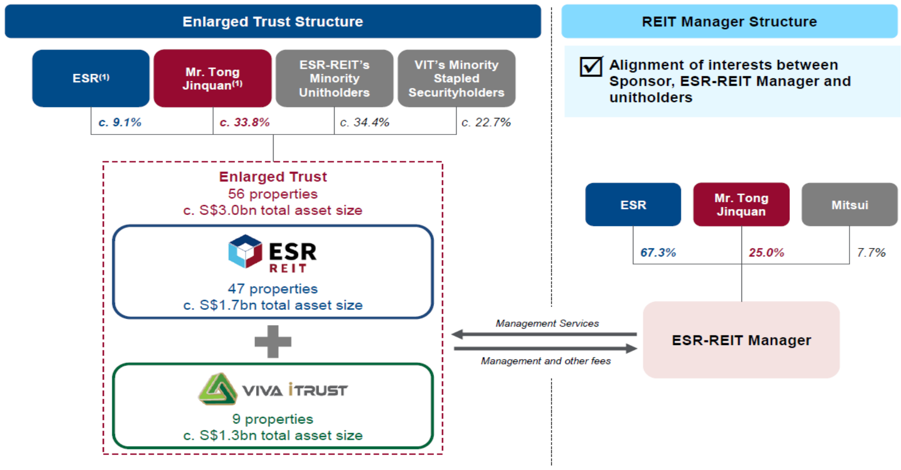
Post-merger, Tong will own c.33.8% in the enlarged trust while ESR will own c.9.1% (pre-merger, Tong Jinquan and ESR respectively owned c.18.3% and c.13.3% of EREIT ).

**Figure 48: The scheme consideration**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 49: VIT will become a sub-trust of EREIT; the enlarged trust will continue to be managed by EREIT manager**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In terms of funding for the merger, EREIT would issue 1,561.2m new units (issue price of S$0.54/unit) and raise new debts of S$93.7m for the scheme consideration. It would also refinance VIT's existing debt of S$525m. Lastly, the REIT would issue c.23.8m new units (at S$0.54/unit) to the manager as payment for acquisition fee.

The manager expects the merger to be completed in Sep 2018. During the process, an EGM is scheduled to be held in Aug (refer to Figure 52). Unitholders' approvals are required for the i) merger, ii) issuance of new units (for the merger), and iii) a whitewash waiver. This is because post-merger, Mr Tong Jingquan's interest in EREIT will increase to more than 30%, which would trigger a mandatory general offer.

Nonetheless, we consider it prudent to buffer some delays given that the merger is via a trust scheme of arrangement, which means that Court sanction and approval is needed. In addition, approvals from both set of unitholders at EGMs as well as further regulatory approvals (i.e. SIC/SGX/MAS/HDB/JTC) are required. For simplicity, we incorporate the merger on "day one" of FY19F.

### Figure 50: Financing considerations for the merger

| Illustrative Uses | |
|---|---|
| **Total Acquisition Cost** | ▪ Approximately S$1,498.8 million comprising:<br>– Scheme Consideration of S$936.7 million<br>– Refinancing of VIT's existing debt of S$525.0 million<br>– Acquisition Fees payable in Units to the Manager for the Acquisition which is estimated to be approximately S$12.8 million<br>– The estimated professional and other fees and expenses of approximately S$24.3 million(1) |
| **Illustrative Sources** | |
| **Consideration Units** | ▪ Approximately S$843.1 million:<br>– 1,561.2 million new ESR-REIT Units to be issued at an issue price of **S$0.54** per Unit in ESR-REIT |
| **New Debt** | ▪ Approximately S$642.9 million including:<br>– Financing of 10% Scheme Consideration in cash of S$93.7 million<br>– Refinancing of VIT's existing debt of S$525.0 million<br>– Debt taken to fund professional and other fees and expenses<br>– 100% unsecured |
| **Acquisition Fee in Units** | ▪ Approximately 23.8 million Acquisition Fee Units at an issue price of **S$0.54** per Unit in ESR-REIT |

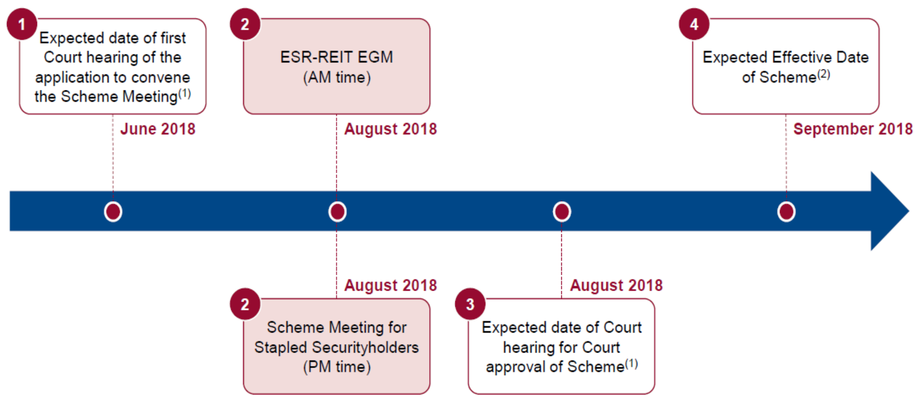
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

### Figure 51: Approvals required for EREIT

| Approvals Required | Requirements |
|---|---|
| **Merger** | ▪ Ordinary resolution (i.e. more than 50% of the total number of votes cast(1))<br>▪ The Tong Group(2), e-Shang Infinity Cayman Limited and their respective associates are required to abstain from voting |
| **Issuance of ESR-REIT Units in Consideration for the Merger** | ▪ Extraordinary resolution (i.e. 75% or more of the total number of votes cast(1))<br>▪ The Tong Group(2), e-Shang Infinity Cayman Limited and their respective associates are required to abstain from voting |
| **Whitewash Waiver** | ▪ Approval to waive the requirement on the Tong Group(2) to make a mandatory general offer for ESR-REIT as a result of the increase in its Unitholdings<br>▪ Ordinary resolution (i.e. more than 50% of the total number of votes cast(1))<br>▪ The Tong Group(2), parties acting in concert with them and parties not independent of them are required to abstain from voting |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

### Figure 52: Expected timeline of the merger




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

# Benefits of the merger

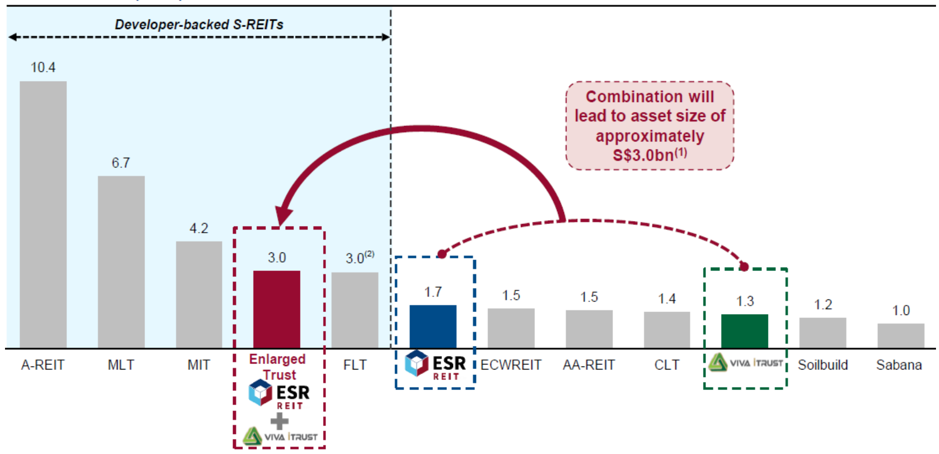
## Potential re-rating with a larger, stronger and more diversified portfolio

*Historically, large-cap industrial S-REITs have averaged 5.8% trailing yield or c.210bp spread against small-mid caps' 7.9%.*
*In terms of P/BV, large caps have averaged 1.18x vs. small-mid caps' 0.95x, translating to a 0.23x premium.*

Post-merger, EREIT is expected to become the fourth-largest industrial S-REIT with a combined AUM of c.S$3bn. It would be the largest non-GLC (government-linked company) industrial S-REIT behind the likes of AREIT, MLT and MINT. In fact, it would be the largest industrial S-REIT with pure exposure to the Singapore industrial market. We believe that EREIT would remain a 100%-Singapore focused REIT in the next 12-24 months.

**Figure 53: Following the merger, the enlarged trust is expected to become the fourth-largest industrial S-REIT with a combined AUM of c.S$3bn**

Total Asset Size (S$bn)




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

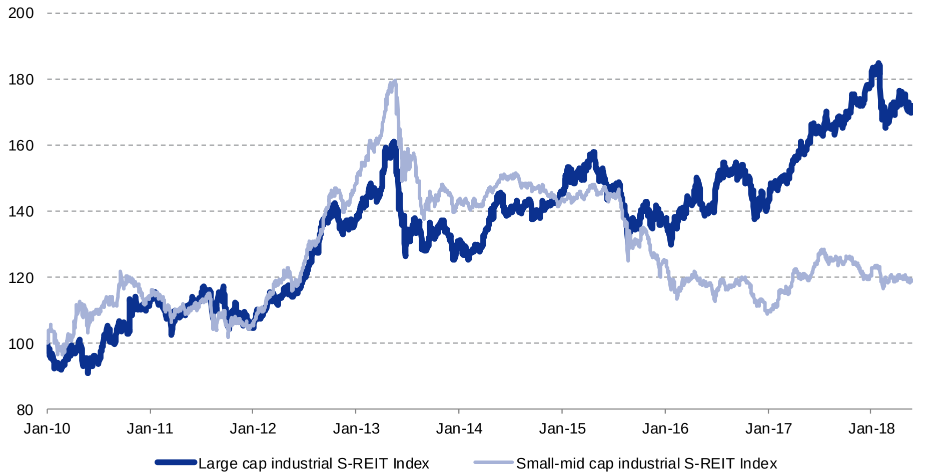
Backed by a larger, stronger and more diversified AUM, we believe that EREIT could potentially enjoy a re-rating of its unit price. With small-mid cap industrial S-REITs struggling to deliver inorganic growth over the past few years, we found that the large-cap industrial S-REITs – which are developer-backed and have a right of first refusal pipeline – to have decisively outperformed its small-mid cap peers since the turn of 2016. From 2016 to now, the large-cap industrial S-REIT index (comprising AREIT, MLT and MINT on an equal-weighted basis) has returned c.26% in unit price appreciation. In the meantime, the small-mid cap industrial S-REIT index (comprising AAREIT, CACHE, EREIT, SBREIT, SSREIT and VIT on an equal-weighted basis) has lost c.5%.

On a yield basis, the large caps are trading at 6.0% trailing yield vs. small-mid caps' 7.4% (translates to c.140 bp yield spread). Historically, large caps have traded at 5.8% vs. small-mid caps' 7.9% (c.210 bp yield spread).

In terms of P/BV, the larger caps are trading at 1.24x trailing P/BV vs. small-mid caps' 0.98x (or 0.26x premium). Historically, large caps have traded at 1.18x vs. small-mid caps' 0.95x (or 0.23x premium).

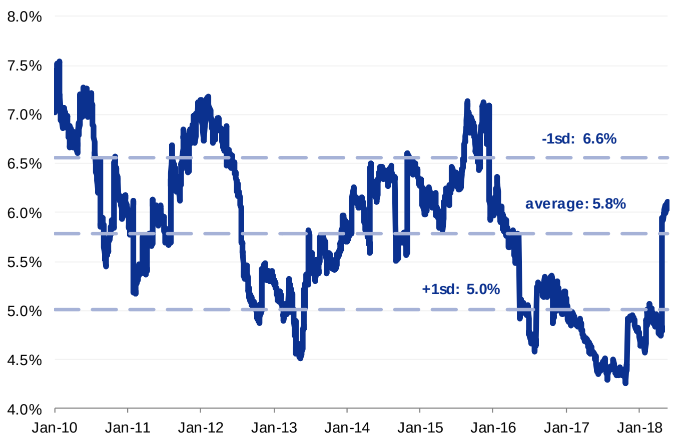
As large caps have demonstrated a track record of delivering DPU growth and considering factors such as higher trading liquidity and index inclusion effects, we believe that the premium to small-mid caps is warranted. We believe that as long as EREIT is able to offer DPU growth, the REIT would be re-rated closer to its large-cap peers.

**Figure 54: Since 2016 to now, the large-cap industrial S-REIT index has returned c.26% while the small-mid cap industrial S-REIT index has lost c.5%**



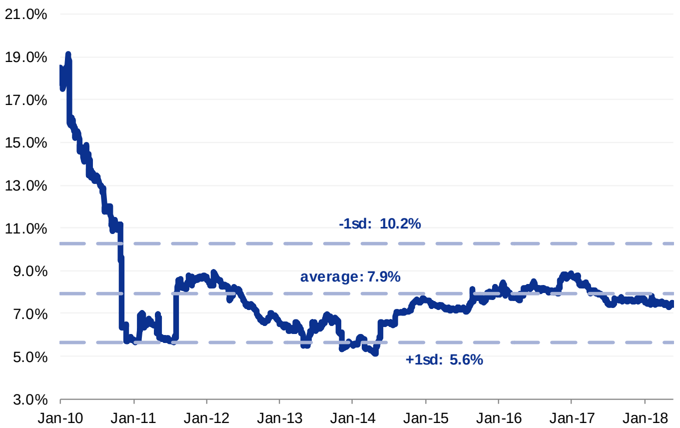

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 55: Large-cap industrial S-REITs are trading at 6.0% trailing dividend yield or c.140bp spread vs. small-mid caps**



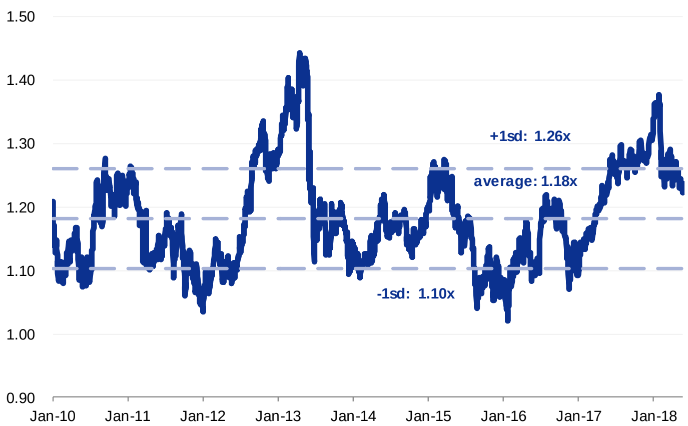

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 56: Small-mid cap industrial S-REITs are trading at 7.4% trailing dividend yield**



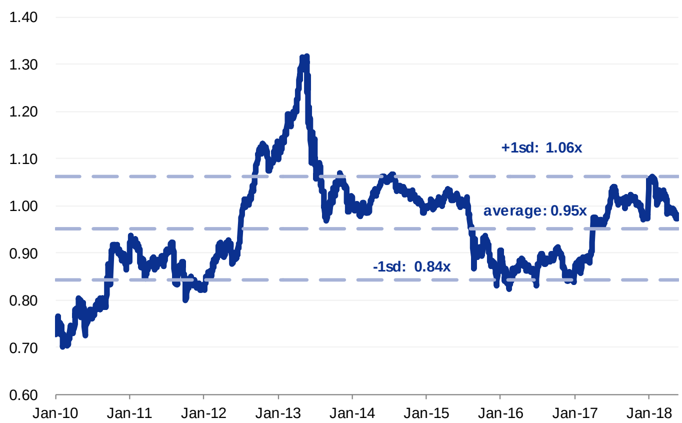

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 57: Large-cap industrial S-REITs are trading at 1.24x trailing P/BV or 0.26x premium against small-mid caps**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 58: Small-mid cap industrial S-REITs are trading at 0.98x trailing P/BV**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

*REITs which trade at a premium to book are in a virtuous cycle.*

In addition, we view that "cheap" equity currency (that is when REITs trade at a premium to book) makes it easier for a REIT to deliver accretive-acquisitions. With evident DPU growth, a REIT typically re-rates, leading to cheaper cost of capital. In turn, this makes the next acquisition accretive, leading to growth, and in turn to lower costs of capital, turning a virtuous cycle.

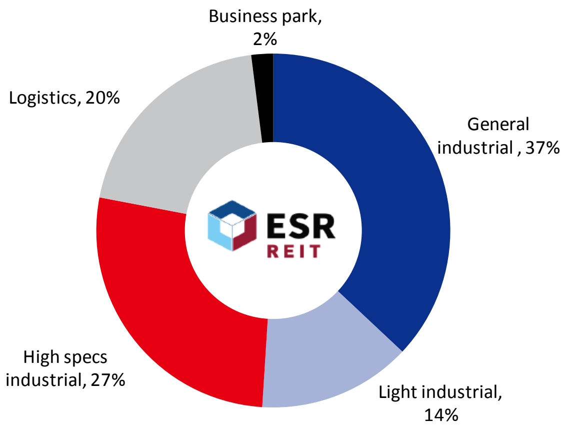
## Increased exposure to high value-added tenant sectors

Following the merger, EREIT would gain immediate access to business parks, which we consider to be the pinnacle of industrial space sophistication and a real estate proxy for Singapore's shift towards higher value-added activities.

We note that EREIT currently has one business park (16 International Business Park) which account for 2% of its AUM. The property is master leased to construction engineering company, M+W Group, for c.39 years.

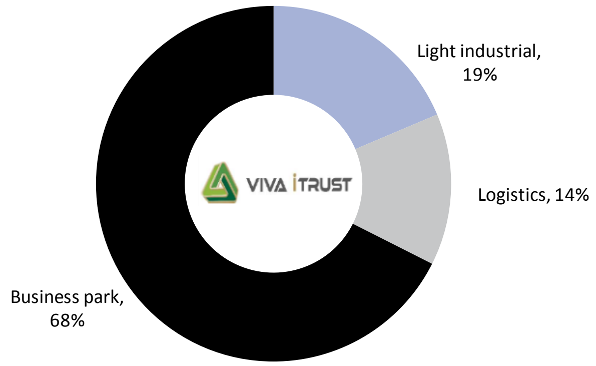
Post-merger, we estimate that high-specs industrial and business parks would form 46% of the enlarged trust's AUM. Pre-merger, high-specs industrial and business parks formed 29% of EREIT's AUM.

**Figure 59: Pre-merger AUM of EREIT by sub-assets[1]: business parks account for only 2% of its AUM**



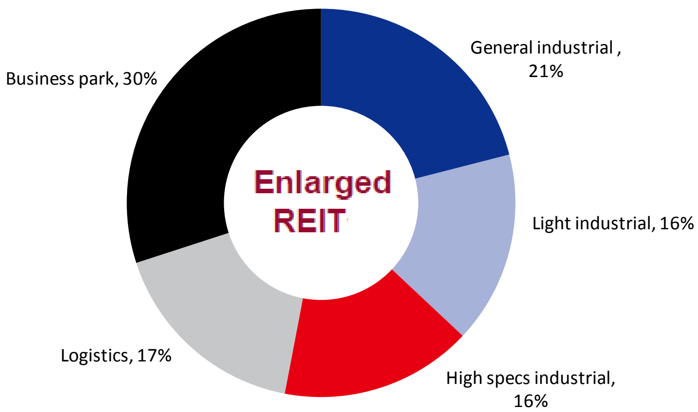

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]As at 31 Mar 2018

**Figure 60: Pre-merger AUM of VIT by sub-assets[1]: UE BizHub East and Viva Business Park make up 68% of its AUM**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]As at 31 Mar 2018

**Figure 61: Post-merger proforma AUM of enlarged trust by sub-assets: high-specs industrial and business parks would form 46% of the enlarged trust's AUM**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A larger AUM makes a REIT more resilient. We note that EREIT's properties are somewhat dated, with a weighted average age of 19.4 years. While the manager has identified 3-4 AEIs, it is also aware that EREIT's distributions could be adversely affected by the loss of income should extensive AEI works take place. With a larger AUM, the impact on DPU would be lesser.

To further drive home the point of resilience, we also look to the case of Hyflux, which recently ran into credit issues. On an absolute level, we note that AREIT is the larger landlord of Hyflux. It collected c.S$20.1m in rent from its Hyflux properties in FY3/18. In comparison, we estimate that EREIT would collect c.S$9.2m in rent from its Hyflux property (8 Tuas South Lane) in FY18F. However, due to AUM size – AREIT's AUM is in excess of S$10bn – Hyflux is AREIT's ninth largest tenant and only accounts for 1.2% of its GRI. In comparison, Hyflux is EREIT's second-largest tenant and accounts for 6.8% of its GRI. Hence, should Hyflux default on its rents, EREIT would be the one which would be more adversely affected.

From VIT's perspective, we also note that the merger would reduce the percentage of properties in the enlarged portfolio with land lease expiry within the next 20 years from 37.2% to 23.1%.

## Lower costs of funding

*As at end-FY19F, we project that the enlarged REIT's all-in cost of debt would decrease by 10bp yoy to 3.45% p.a. With the addition and refinancing of VIT's borrowings, we estimate that EREIT's gearing would climb 10% pt yoy to c.40%; the enlarged REIT would have a fully unencumbered portfolio with increased debt tenor of 2.5 years.*

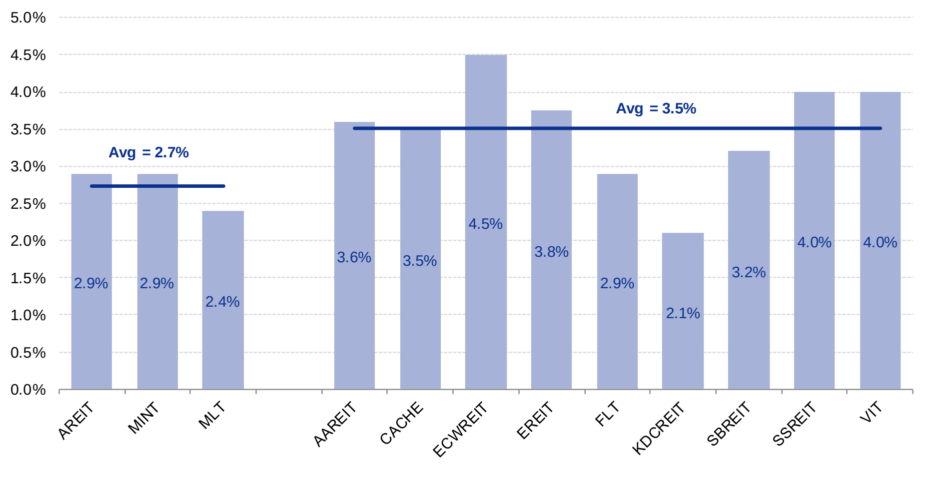
A bigger clout commands lower borrowing costs. As at 31 Mar 2018, the big three industrial S-REITS (AREIT, MINT and MLT) had a simple average all-in cost of debt of 2.7% p.a. This compares to EREIT's 3.75% and VIT's 4.0%. EREIT's lower cost of borrowings vs. VIT's could be partially explained by the fact that 100% of EREIT's investment properties are unencumbered while only 8% of VIT's properties are unencumbered. Meanwhile, the simple average all-in cost of debt for the small-mid industrial S-REITs caps is 3.5%, which suggests a c.80bp credit spread between the large and small issuers.

Backed by developer-sponsor ESR and a larger AUM, we believe that post-merger, the enlarged trust would be able to narrow the large-small issuer credit spread and reap lower costs of funding. Already, we are seeing some of the fruits being borne. The merger will result in the conversion of all of VIT's secured debt (92% of VIT's AUM is encumbered) into unsecured debt. Post-refining, VIT's "all-in" finance cost of debt is expected to decrease to 3.7% from 4.0% p.a.

As at end-17, EREIT's all-in cost of debt stood at 3.55%. Notwithstanding a higher rate environment, we assume that EREIT's all-in cost of debt would decrease by 10bp yoy in FY19F and another 10bp to reach an optimal cost of 3.35% p.a. in FY20F.

With the addition of VIT's borrowings, we estimate that EREIT's gearing would climb to c.40% as at end-FY19F (30% as at 31 Mar 2018); the enlarged REIT would have a fully unencumbered portfolio with increased debt tenor of 2.5 years. As at 31 Mar 2018, EREIT's debt tenor stood at 1.8 years.

**Figure 62: As at 31 Mar 2018, the big three industrial S-REITs had a simple average all-in cost of debt of 2.7% p.a. vs. small-mid caps' 3.5%**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Well supported by a strong and committed developer-sponsor

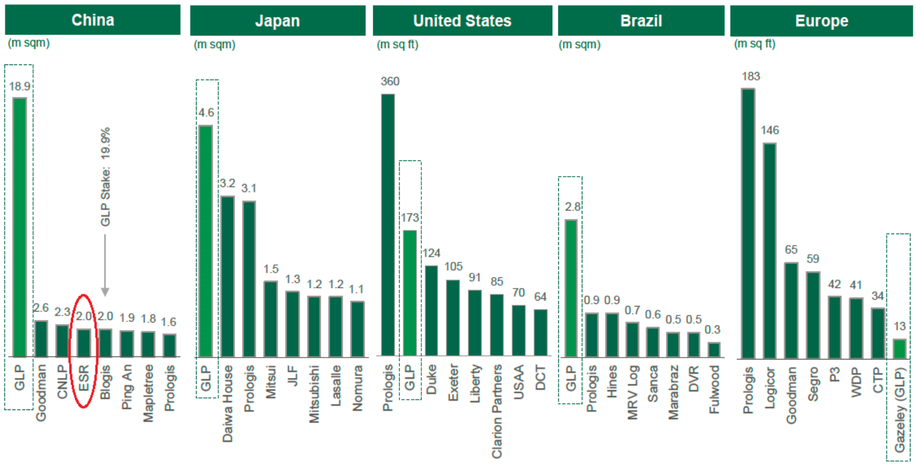
While there are advantages to an independently-managed REIT, we believe that VIT would benefit from a strong and committed developer-sponsor in the form of the ESR group. Post-merger, ESR will own c.9.1% of the enlarged trust.

As part of the sponsor group, the enlarged REIT would have access to ESR's pipeline of regional assets. Moreover, EREIT would be able to leverage off ESR group's network of relationships with global e-commerce companies, retailers, logistics service providers and manufacturers.

Headquartered in Hong Kong, ESR is a leading pan-Asian logistics developer, owner and operator. The group manages c.10m sqm of projects owned and under development across China, South Korea, Japan, Singapore, India and Singapore.

We note that its competitor, GLP (the largest modern logistics developer in China), regards ESR as the fourth-largest owner in China, with c.2m sqm of completed logistics space. Moreover, the group has been particularly expansive. Besides entering into Singapore via an initial c.11% stake in EREIT in Feb 2017, it entered into Australia in Oct 2017 via the acquisition of two property fund managers – c.15% stake in Centuria Capital and an 18% stake in Propertylink.

**Figure 63: Modern logistics competitor chart: EREIT is the fourth-largest modern logistics owner in China, with c.2m sqm of completed space**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESR was formed as a result of merger between e-Shang and the Redwood group in 2016. e-Shang was founded in 2011 by global private equity firm, Warburg Pincus and two successful Chinese real estate entrepreneurs – Mr Jeffrey Shen and Mr Sun Dongping. The Redwood group was founded in 2006 by Mr Stuart Gibson and Mr Charles de Portes, and specialised in logistics and fund management in China and Japan. We note that ESR's co-founders are ex-Prologis executives, as are some members of its management team. Prologis is the world's largest logistics property developer, owner and operator.

Apart from Warburg Pincus, ESR group is backed by blue-chip institutional investors including Goldman Sachs, APG, South Korean conglomerate, SK Holdings. We note that Chinese online retailer, JD.com recently invested c.US$306m in ESR in May 2018.

Because of the origins of ESR, we believe that the parent understands the importance of scale in real estate. More importantly, it understands that the merger of REIT managers is a critical bottleneck in REIT mergers. Evidently, it has put its money where its mouth is, and acquired VIT manager, which paved the way for the REIT merger. We believe that one of the reasons why REIT consolidations have not materialised earlier in Singapore's corporate history was because no buyer wanted to pay for the REIT manager.

**Figure 64: Headquartered in Hong Kong, ESR is a leading pan-Asia logistics real estate platform, focused on developing and managing prime logistics facilities**

- Focused on developing and managing modern, institutional-quality logistics facilities with a high quality tenant base
- Co-founded by Warburg Pincus and backed by blue-chip institutional investors, including:

**Equity Investors**: Warburg Pincus, apg, Goldman Sachs, SK, StepStone, State Street Global Advisors

**Fund Level Investors**: CPP Investment Board, 中国平安 PING AN, PGGM, State Oil Fund of the Republic of Azerbaijan

- With operations across China, Japan, Korea, Singapore and India, ESR has emerged as a leading Pan-Asian logistics real estate platform
- ESR-REIT has “first look” on the pipeline of assets in an increasingly asset scarce environment for quality logistics assets
- In August 2017, SK Holdings made a strategic equity investment of USD 333 million for a 10% fully diluted stake in ESR

**External Assets Under Management**

**>US$11 billion**

**GFA**

**10 million sq metres in operation and under development**

**China**
- One of the top players by logistics facilities area
- A leading landlord of key global e-commerce players

**Korea**
- One of the largest modern warehouse developers in Korea upon completion of projects under development

**Japan**
- A market leader in terms of new development starts over the last 24 months
- A top 5 institutional operator with an established and experienced team

**Singapore**
- Invested in ESR-REIT, an early industrial S-REIT player with >9m sq ft of GFA across key industrial zones
- c.13% stake in ESR-REIT; c.80% stake in ESR-REIT Manager and c.100% stake in its Property Manager

**India**
- To build a leading real estate platform in both size and volume
- Initial focus on Tier-1 city agglomerations, including Mumbai, Pune, Delhi, Chennai and Bangalore

**Australia**
- Entered Australia market in 2017 and became the largest shareholder of PropertyLink and Centuria Capital which collectively have over A$6b of AUM

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

# Appendix: a broad brush on EREIT and VIT

## A brief history of EREIT

EREIT, formerly known as Cambridge Industrial Trust, was the first independent REIT to be listed in Singapore in 2006 (it was not backed by a sponsor developer). Shareholders of the then-manager, Cambridge Industrial Trust Management (CITM) were CREIM (60%), logistics company, CWT (20%) and Japanese conglomerate, Mitsui (20%). The shareholders of CREIM were also the key management of the manager. In 2008, NAB (National Australia Bank) and private equity, Oxley Capital jointly acquired 80% ownership of CITM. Mitsui remained as a 20% partner.

In an interesting turn of events, Cambridge Industrial Trust attempted an unsuccessful hostile takeover of fellow S-REIT peer, MacarthurCook Industrial REIT in 2009. It attempted to oust the manager of MacarthurCook Industrial REIT and replace it with its own manager. It did this by accumulating a 10% stake in MacarthurCook Industrial REIT. However, MAS ruled that the same manager should not be able to manage the two REITs with similar asset profile as there could be potential conflict of interests.

In 2013-15, Chinese property tycoon, Tong Jinquan began accumulating interests in Cambridge Industrial Trust. Tong currently owns c.18.3% in EREIT. Around the same time, fund manager, Charlie Chan built up c.10% in the REIT.

In 2015, unitholders of Cambridge Industrial Trust (which we believe included Tong Jingquan) blocked the REIT's general mandate at the annual general meeting (AGM). The general mandate, which is a common resolution tabled by REITs, sought to increase the total number of units by up to 10% without the need for further unitholders' permission. In our view, some of the reasons behind unitholders' unhappiness was due to the constant REIT's investment activities, which yielded a stream of acquisition and divestment fees to the manager.

In addition, the manager had a convoluted performance fee structure, which was ultimately based on the REIT's total returns. Given that both Tong and Charlie Chan had built up sizeable stakes in the REIT in 2013, it was arguable whether total returns generated by the REIT then was attributable to the REIT's operating performance or because of key investors snapping sizeable stakes in the REITs (which pushed up unit prices). The performance fee structure was amended in 2015, where the model changed from a total returns-based formula to a DPU growth model. The initial DPU threshold was set at 6 Scts/unit.

ESR came into the picture in Jan 2017 when it acquired an 80% stake in the manager (CITM) from NAB and Oxley Capital. In the following month, ESR acquired 10.65% of the REIT for S$0.70/unit (we believe that Charlie Chan was the seller) to become the second-largest unitholder after Tong. With the support of its new sponsor-developer, EREIT obtained approval of the general mandate in the 2017 AGM.

In Jun 2017, to reflect the change in shareholder of the manager and to demonstrate a greater alignment with the REIT vehicle, Cambridge Industrial Trust was renamed to "ESR-REIT". CITM was also renamed to "ESR Funds Management". Alongside the name change, Mr Adrian Chui, was appointed in end-Mar 2017 as CEO of the manager. Prior to joining the manager, he ran the Southeast Asian real estate advisory division and the Singapore corporate banking division of Standard Chartered Bank. We believe that his appointment signaled ESR's intentions to amalgamate the small-mid cap industrial S-REITs.

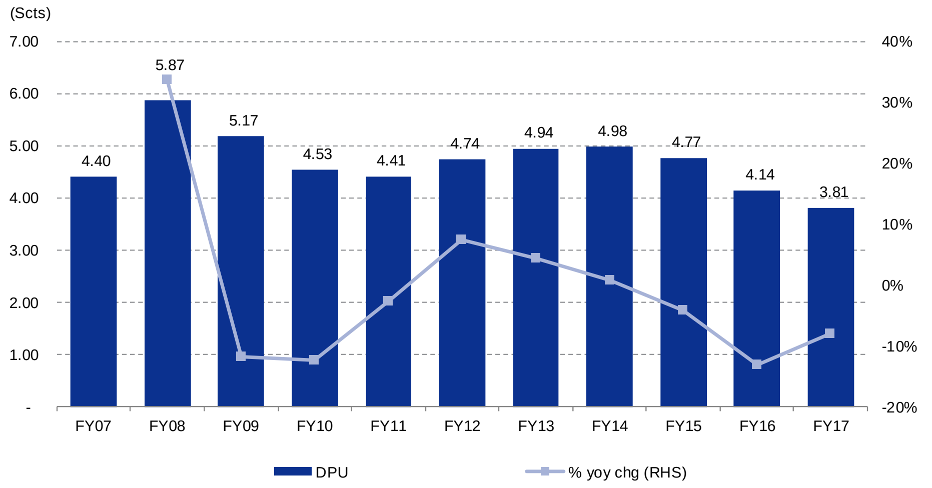
**Figure 65: EREIT's milestones through the years - key capital management and corporation actions**

| Date | Event |
|---|---|
| 2006 | Listed on SGX mainboard |
| 2007 | Raised gross proceeds of S$193.9m through a private placement |
| 2008 | Acquisition of majority ownership of CITM (Cambridge Industrial Trust Management) by NAB and Oxley Capital. Mitsui remained as 20% partner |
| 2009 | Raised gross proceeds of S$28m through a private placement |
| | Attempted unsuccessful takeover of Macarthur Cook Industrial REIT |
| 2010 | Raised gross proceeds of S$70m through two private placements |
| 2011 | Raised gross proceeds of S$56.7m through a rights issue |
| 2012 | Issued 4.75% S$50m MTN |
| 2014 | Issued 4.1% S$30m NTM due 2020 |
| 2015 | Issued 3.5% S$55m MTN due 2018 |
| | Issued 3.95% S$130m MTM due 2020 |
| | General Mandate was blocked in 2015 |
| 2016 | Issued 3.95% S$50m MTN due 2023 |
| | Unencumbered 100% of portfolio |
| 2017 | ESR acquired 80% indirect stake in manager from NAB and Oxley. Remaining 20% in manager held by Mitsui |
| | ESR acquired c.12% of REIT units, becoming REIT's second largest unitholder |
| | Cambridge Industrial REIT changed its name to "ESR-REIT" |
| | Approval of General Mandate obtained |
| 2018 | Raised gross proceeds of S$141.9m through a preferential offering |
| | Proposed merger of EREIT and VIT |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

As at 31 Mar 2018, EREIT owned a diversified portfolio of 47 industrial properties across Singapore with a total GFA of 9.7m sq ft and a property value of S$1.65bn. The REIT's initial portfolio comprised of 27 properties with a total GFA of 4.6m sq ft and a property value of S$0.5bn. Through the years, EREIT's performance had been somewhat patchy. We believe that DPU declines through FY08-11 was due to GFC (Global Financial Crisis) and negative carry/timing issues from equity fund raisings which were used to fund acquisitions. FY12-14 represented the good times as EREIT benefited from a rising industrial market and inorganic contributions from past acquisitions. In recent times (FY15-17), the REIT, as with the other small-mid cap industrial REITs, suffered from MTB conversions and a challenging industrial market.

**Figure 66: EREIT's historical DPU trend, adjusted for equity fund raising**




SOURCES: CGS-CIMB RESEARCH

**Figure 67: Summary of investment activities undertaken by EREIT over FY13-17: Through the years, the REIT has been active in rebalancing its portfolio. We note that its divestments have always been sold at a premium to book value**

| FY13 acquisition/divestment/AEI & re-development summary | | | | |
|---|---|---|---|---|
| **Acquisition** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Purchase Price (S$m)** |
| 15 Jurong Port Road | General industrial | 245,172 | 30-Jan-13 | 43.0 |
| 54 Serangoon North Ave 4 | High-specs industrial | 139,224 | 01-Mar-13 | 21.0 |
| 60% stake in 3 Tuas South Avenue 4 | General industrial | 315,522 | 19-Mar-13 | 15.0 |
| 16 Tai Seng Street (Phase II) | Light industrial | 40,403 | 04-Apr-13 | 13.7 |
| **Divestment** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Gross Proceeds (S$m)** |
| 63 Hillview Avenue (97 strata units) | Light industrial | 382,517 | 30-Sep-13 | 140.8 |
| 30 Tuas Road (complusary land acquisition by SLA) | Logistics & warehouse | 842,588 | 01-Feb-13 | 76.7 |
| 7 Gul Lane | General industrial | 48,427 | 01-Jul-13 | 8.5 |
| 23 Lorong 8 Toa Payoh | Car showroom & workshop | 50,792 | 05-Sep-13 | 18.4 |
| 361 Ubi Road 3 | Light industrial | 96,843 | 01-Dec-13 | 18.5 |
| **AEI & re-development** | **Asset classification** | **Additional GFA (sq ft)** | **Completion date** | **Cost (S$m)** |
| 88 International Road | General industrial | 101,932 | 20-May-13 | 16.8 |
| 4&6 Clementi Loop | Logistics & warehouse | 110,957 | 9-Jan-13 | 23.3 |
| **FY14 acquisition/divestment/AEI & re-development summary** | | | | |
| **Acquisition** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Purchase Price (S$m)** |
| 16 International Business Park | Business park | 69,258 | 19-Dec-14 | 28.0 |
| 12 Ang Mo Kio Street 65 | High-specs industrial | 180,424 | 12-Sep-14 | 39.8 |
| 11 Chang Charn Road | High-specs industrial | 97,542 | 31-Mar-14 | 32.0 |
| 30 Teban Gardens Crescent | Light industrial | 139,525 | 17-Mar-14 | 41.0 |
| **Divestment** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Gross Proceeds (S$m)** |
| 81 Defu Lane 10 | Logistics & warehouse | 45,242 | 24-Mar-14 | 7.8 |
| **AEI & re-development** | **Asset classification** | **Additional GFA (sq ft)** | **Completion date** | **Cost (S$m)** |
| 3 Pioneer Sector 3 (Phase I) | Logistics & warehouse | 315350 | 3-Jun-14 | 45.4 |
| 21B Senoko Loop (Phase II) | General industrial | 73,026 | 10-Dec-14 | 12.8[1] |
| 30 Toh Guan Road | Light industrial | - | 31-Jul-14 | 2.3 |
| **FY15 acquisition/divestment/AEI & re-development summary** | | | | |
| **Acquisition** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Purchase Price (S$m)** |
| remaining 40% stake in 3 Tuas South Avenue 4 | General industrial | - | 20-Mar-15 | 11.0 |
| 160A Gul Circle | General industrial | 86,079 | 13-May-15 | 16.2 |
| **AEI & re-development** | **Asset classification** | **Additional GFA (sq ft)** | **Completion date** | **Cost (S$m)** |
| 31 Changi South Ave 2 | General industrial | 9,052 | 16-Apr-15 | 1.5 |
| 21B Senoko Loop (Phase I) | General industrial | 27,057 | 16-Mar-15 | 12.8[1] |
| 3 Pioneer Sector 3 (Phase II) | Logistics & warehouse | - | 27-Mar-15 | 12.4 |
| **FY16 acquisition/divestment/AEI & re-development summary** | | | | |
| **Divestment** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Gross Proceeds (S$m)** |
| 2 Ubi View | Light industrial | 43,654 | 31-Oct-16 | 10.5 |
| 23 Tuas Avenue 10 | | 102,310 | 22-Jul-16 | 16.5 |
| **AEI & re-development** | **Asset classification** | **Additional GFA (sq ft)** | **Completion date** | **Cost (S$m)** |
| 86 International Road | General industrial | - | 28-Jan-16 | 2.0 |
| **FY17 acquisition/divestment/AEI & re-development summary** | | | | |
| **Acquisition** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Purchase Price (S$m)** |
| 8 Tuas South Lane | General industrial | 781,126 | 13-Dec-17 | 106.1 |
| 80% stake in 7000 Ang Mo Kio Avenue 5 | High-specs industrial | 1,073,233 | 14-Dec-17 | 240.0 |
| **Divestment** | **Asset classification** | **GFA (sq ft)** | **Completion date** | **Gross Proceeds (S$m)** |
| 23 Woodlands Terrace | General industrial | 124,425 | 7-Dec-17 | 17.68 |
| 55 Ubi Avenue 3 | Light industrial | 141,135 | 29-Aug-17 | 22.1 |
| 87 Defu Lane 10 | Light industrial | 109,920 | 16-Nov-17 | 17.5 |
| **AEI & re-development** | **Asset classification** | **Additional GFA (sq ft)** | **Completion date** | **Cost (S$m)** |
| 120 Pioneer Road | General industrial | - | Sept | 5.0 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
[1]Cost of S$12.8m is for both phase I and II

## A brief history of VIT ›

Listed on the SGX mainboard in Nov 2013, VIT is a Singapore-focused business park and industrial trust. As at 31 Mar 2018, VIT's portfolio comprised nine properties with a total GFA of 3.9m and property value of S$1.28bn. We consider UE BizHub EAST and Viva Business Park to be the jewels in the group's crown. The two properties (we include the hotel component of UE BizHub East as business park) account for 68% of its AUM. VIT has the highest concentration of business parks among the industrial S-REITs.

Tong Jinquan owns c.50.5% of VIT. Its sponsor, Ho Lee Group (owns 6.8% in VIT), is a diversified company involved in construction, property development and investment. The manager, Viva Investment Management, is 55.5% owned by Maxi Capital, 16.7% by Kim Seng Holdings and 27.8% by Ho Lee Group.

Tong has a 62% indirect-ownership of Maxi Capital and hence, has an effective 34.4% stake in the manager. The other shareholders of Maxi Capital include Mr Wilson Ang (CEO of the manager) and Mr Frank Ng (COO of the manager). In a case of déjà vu, Mr Wilson Ang co-founded Cambridge Industrial Trust and was the first CEO of the REIT manager.

**Figure 68: VIT milestones**

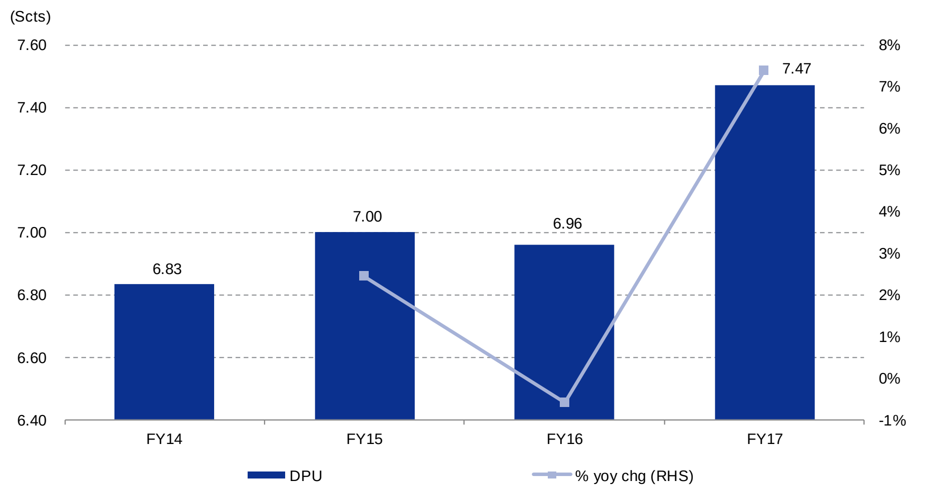
| Date | Milestone |
|---|---|
| Nov 2013 | Listed on SGX mainboard |
| Nov 2014 | Completed acquisitions of Jackson Square and Jackson Design Hub for S$111.5m |
| Dec 2014 | Raised gross proceeds of S$15.6m from a private placement (to partially fund acquisition of Jackson Square and Jackson Design Hub) |
| Jun 2015 | Raised gross proceeds of S$65m from a private placement (to fund AEI of Viva Business Park) |
| Nov 2015 | Raised gross proceeds of S$37.7m from a private placement (to partially fund 11 Ubi Road, Home-Fix Building & 30 Pioneer Road) |
| Nov 2015 | Completed acquisitions of 11 Ubi Road 1 and Home-Fix Building for S$122.7m |
| Dec 2015 | Raised gross proceeds of S$72.3m from a preferential offering (to partially fund 11 Ubi Road, Home-Fix Building & 30 Pioneer Road) |
| Jan 2016 | Obtained TOP for AEI works for block 750A at Viva Business Park (phase 1) |
| Apr 2016 | Completed acquisition of 30 Pioneer Road for S$45m |
| May 2016 | Obtained TOP for AEI works for block 750 at Viva Business Park (phase 2) |
| Nov 2016 | Raised gross proceeds of S$45m from a private placement (to partially fund 6 Chin Bee Avenue) |
| Jan 2017 | Completed acquisition of 6 Chin Bee Avenue for S$87.3m |
| May 2017 | Obtained TOP for AEI works for block 750B at Viva Business Park (phase 3) |
| Jan 2018 | Proposed merger of EREIT and VIT |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Unlike the other small-mid cap industrial REITs which suffered from the challenging industry conditions and MTB conversions in recent years, VIT has bucked the trend. In part, we believe that this is due to the master leases and rental support arrangements which helped to underpin its distributions. Additionally, accretive acquisitions, and more importantly, the AEI of Viva Business Park resulted in strong DPU growth for FY17.

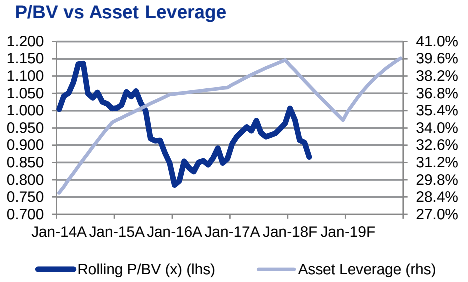
Recall that in May 2015, VIT announced its plan to maximise the “white” space of Viva Business Park (space allowable for mixed uses and constitutes 15% of total space). The AEI involved the conversion of unutilised areas (c.160k sq ft of NLA) into commercial spaces at three of the six blocks at Viva Business Park; and aimed to transform the business park into a “work-play-eat-shop” destination in the Chai Chee neighbourhood. With retail almost fully occupied and rents double than that of the business park component at Viva Business Park, we have witnessed increased contributions flow into FY17.

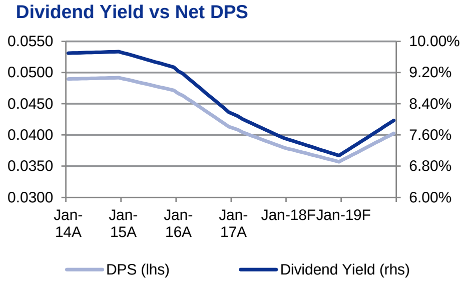
**Figure 69: VIT’s historical DPU trend, adjusted for equity fund raising – VIT has bucked the trend, registering 7.4% yoy increase in FY17 DPU**




SOURCES: CGS-CIMB RESEARCH

## BY THE NUMBERS




We see FY18F as a "work-in-progress"; we forecast FY18F DPU to decrease by 6.3% yoy.
Propelled by the addition of VIT as well as an expected bottoming in the Singapore industry market, we forecast FY19F DPU to expand by 12.8% yoy.

### Profit & Loss

| (S$m) | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| Rental Revenues | 112.1 | 109.7 | 138.2 | 268.9 | 272.3 |
| Other Revenues | | | | | |
| **Gross Property Revenue** | **112.1** | **109.7** | **138.2** | **268.9** | **272.3** |
| Total Property Expenses | (29.8) | (31.3) | (37.6) | (73.4) | (74.3) |
| **Net Property Income** | **82.3** | **78.4** | **100.6** | **195.5** | **198.0** |
| General And Admin. Expenses | | | | | |
| Management Fees | (7.1) | (7.0) | (8.8) | (15.2) | (15.2) |
| Trustee's Fees | | | | | |
| Other Operating Expenses | (1.9) | (2.2) | (2.3) | (3.7) | (3.7) |
| **EBITDA** | **73.3** | **69.3** | **89.5** | **176.6** | **179.1** |
| Depreciation And Amortisation | | | | | |
| **EBIT** | **73.3** | **69.3** | **89.5** | **176.6** | **179.1** |
| Net Interest Income | (21.1) | (20.3) | (22.5) | (41.4) | (40.3) |
| Associates' Profit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Income/(Expenses) | 1.2 | 0.2 | 0.0 | 0.0 | 0.0 |
| Exceptional Items | (46.4) | (47.8) | 0.0 | (196.5) | 0.0 |
| **Pre-tax Profit** | **7.1** | **1.4** | **67.1** | **(61.3)** | **138.8** |
| Taxation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minority Interests | 0.0 | (0.8) | (3.6) | (3.6) | (3.6) |
| Preferred Dividends | 0.0 | 0.0 | (8.0) | (6.9) | (6.9) |
| **Net Profit** | **7.1** | **0.6** | **55.5** | **(71.8)** | **128.3** |
| **Distributable Profit** | **54.5** | **50.4** | **56.8** | **127.9** | **131.4** |

For simplicity – even though the manager expects the merger to be completed by 3Q18 – we incorporate the merger on "day one" of FY19F.

### Cash Flow

| (S$m) | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| **Pre-tax Profit** | **7.09** | **1.40** | **67.07** | **(61.32)** | **138.84** |
| Depreciation And Non-cash Adj. | 19.87 | 20.11 | 22.47 | 41.39 | 40.25 |
| Change In Working Capital | (3.54) | (0.27) | 0.56 | 19.69 | 0.51 |
| Tax Paid | (0.05) | 0.00 | 0.00 | 0.00 | 0.00 |
| Others | 46.39 | 47.78 | 0.00 | 196.53 | 0.00 |
| **Cashflow From Operations** | **69.75** | **69.01** | **90.09** | **196.30** | **179.60** |
| Capex | (5.60) | (9.77) | (12.00) | 0.00 | 0.00 |
| Net Investments And Sale Of FA | 26.83 | (294.12) | (72.20) | (764.16) | 0.00 |
| Other Investing Cashflow | 0.05 | 0.11 | 0.10 | 0.10 | 0.10 |
| **Cash Flow From Investing** | **21.28** | **(303.77)** | **(84.10)** | **(764.06)** | **0.10** |
| Debt Raised/(repaid) | (16.00) | 159.50 | (50.00) | 80.00 | 5.00 |
| Equity Raised/(Repaid) | (0.15) | (0.14) | 141.94 | 856.01 | 0.00 |
| Dividends Paid | (52.94) | (46.00) | (56.77) | (127.86) | (131.37) |
| Cash Interest And Others | (20.86) | 129.47 | (34.08) | (51.89) | (50.75) |
| **Cash Flow From Financing** | **(89.94)** | **242.83** | **1.09** | **756.26** | **(177.13)** |
| Total Cash Generated | 1.09 | 8.06 | 7.08 | 188.51 | 2.58 |
| Free Cashflow To Firm | 91.08 | (234.65) | 6.09 | (567.66) | 179.80 |
| Free Cashflow To Equity | 54.17 | (94.57) | (66.48) | (529.15) | 144.45 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS… cont'd

Post-merger, we forecast that the enlarged REIT would have a gearing of c.40% with weighted average all-in cost of 3.45% p.a. (as at end-FY19F), 10bp yoy lower than in FY18.

### Balance Sheet

| (S$m) | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| Total Investments | 1,332 | 1,652 | 1,760 | 3,045 | 3,045 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Other Long-term Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 1,332 | 1,652 | 1,760 | 3,045 | 3,045 |
| Total Cash And Equivalents | 4 | 12 | 19 | 11 | 13 |
| Inventories | | | | | |
| Trade Debtors | 9 | 8 | 11 | 22 | 22 |
| Other Current Assets | 22 | 24 | 0 | 0 | 0 |
| **Total Current Assets** | **35** | **44** | **30** | **33** | **35** |
| Trade Creditors | 21 | 29 | 32 | 63 | 63 |
| Short-term Debt | 0 | 155 | 155 | 255 | 255 |
| Other Current Liabilities | 0 | 61 | 61 | 61 | 61 |
| **Total Current Liabilities** | **21** | **244** | **248** | **378** | **379** |
| Long-term Borrowings | 510 | 515 | 465 | 966 | 971 |
| Other Long-term Liabilities | 9 | 7 | 7 | 7 | 7 |
| Total Non-current Liabilities | 518 | 522 | 472 | 972 | 977 |
| Shareholders' Equity | 827 | 779 | 920 | 1,576 | 1,573 |
| Minority Interests | | | | | |
| Preferred Shareholders Funds | 0 | 151 | 151 | 151 | 151 |
| **Total Equity** | **827** | **930** | **1,071** | **1,727** | **1,724** |

### Key Ratios

| | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| Gross Property Revenue Growth | (0.1%) | (2.1%) | 26.0% | 94.5% | 1.3% |
| NPI Growth | (4.5%) | (4.7%) | 28.3% | 94.3% | 1.3% |
| Net Property Income Margin | 73.4% | 71.5% | 72.8% | 72.7% | 72.7% |
| DPS Growth | (12.3%) | (8.1%) | (6.0%) | 12.8% | 2.7% |
| Gross Interest Cover | 3.47 | 3.39 | 3.97 | 4.26 | 4.44 |
| Effective Tax Rate | 0% | 0% | 0% | 0% | 0% |
| Net Dividend Payout Ratio | 769% | 8207% | 102% | NA | 102% |
| Current Ratio | 1.63 | 0.18 | 0.12 | 0.09 | 0.09 |
| Quick Ratio | 1.63 | 0.18 | 0.12 | 0.09 | 0.09 |
| Cash Ratio | 0.17 | 0.05 | 0.08 | 0.03 | 0.03 |
| Return On Average Assets | 0.51% | 0.04% | 3.18% | (2.95%) | 4.17% |

We project that portfolio occupancy for the enlarged trust would stand at 94.3% with average gross passing rent of S$1.91 psf pm (as at end-FY19F).

### Key Drivers

| | Dec-16A | Dec-17A | Dec-18F | Dec-19F | Dec-20F |
|---|---|---|---|---|---|
| Rental Rate Psf Pm (S$) | 1.3 | 1.1 | 1.3 | 1.9 | 1.9 |
| Acq. (less development) (US$m) | N/A | N/A | N/A | N/A | N/A |
| RevPAR (S$) | N/A | N/A | N/A | N/A | N/A |
| Net Lettable Area (NLA) ('000 Sf) | 7,694 | 9,296 | 9,412 | 12,424 | 12,600 |
| Occupancy (%) | 94.7% | 93.0% | 91.7% | 94.3% | 93.2% |
| Assets Under Management (m) (S$) | 1,332.0 | 1,652.2 | 1,760.0 | 3,044.7 | 3,044.7 |
| Funds Under Management (m) (S$) | N/A | N/A | N/A | N/A | N/A |

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**Corporate Governance Report:**

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

| **Score Range:** | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 or | No Survey Result |
|---|---|---|---|---|---|
| **Description:** | Excellent | Very Good | Good | N/A | |

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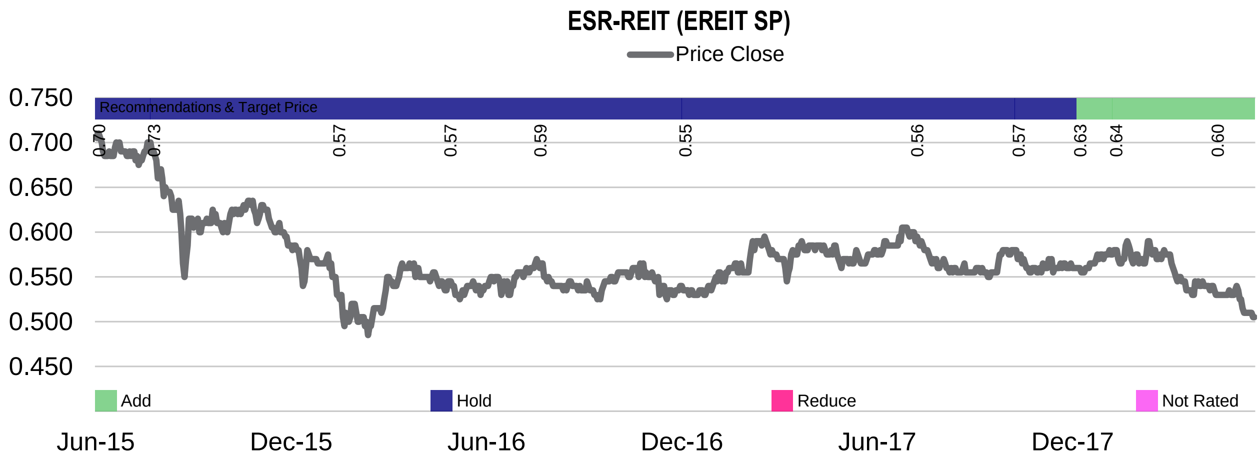
| Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2018<br>1275 companies under coverage for quarter ended on 31 March 2018 | | |
|---|---|---|
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 61.1% | 5.5% |
| Hold | 29.7% | 2.0% |
| Reduce | 8.9% | 0.4% |

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



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017**

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

**Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:**

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

**Recommendation Framework**

| **Stock Ratings** | Definition: |
|---|---|
| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| 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.*

| **Sector Ratings** | Definition: |
|---|---|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

| **Country Ratings** | Definition: |
|---|---|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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