

Company Update

Soilbuild Business Space REIT

Sector Update

Singapore Consumer

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Soilbuild Business Space REIT

DPU impacted by larger unit base

Richard Leow

Phillip Securities Research Pte Ltd

17 April 2017

Soilbuild Business Space REIT

(Neutral, TP:S\$0.66, FY17F DPU: 5.34 cts (7.9%), Last:S\$0.685)



Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	21.99	20.14	↑9.2	S\$2.0mn contribution from Bukit Batok Connection acquired in 3Q16 (27 Sep); offset by S\$0.5mn lower West Park BizCentral
Net property income	19.21	17.19	↑11.7	S\$0.2mn lower property expenses
Distributable income	15.57	14.61	↑6.6	Higher finance expenses and Manager's fee of S\$0.4mn and S\$0.1mn respectively
DPU (cents)	1.489	1.557	↓(4.4)	Effect of larger unit base from 1-for-10 Preferential Offering in 3Q16; Manager elected for cash payment amounting to S\$0.5mn in 1Q17
DPU, adj. (cents)	1.539	1.557	↓(1.2)	Assuming payment of S\$0.5mn in Manager fees in Units, instead of cash

Source: Company, Phillip Securities Research (Singapore)

Higher gross revenue and lower DPU were in line with expectations

- Bukit Batok Connection partially funded by 1-for-10 Preferential Offering

Lower gross revenue and DPU going forward, as Loyang Way security deposit is depleted

- Loyang Way deposit last to mid-May 2017
- Weaker than expected take-up rate (9%) → cut FY17e/FY18e DPU by 2.4%/2.3%

Manageable lease expiry of 12.6% by NLA for remainder of 2017

- Flat reversions on blended-basis, QoQ higher occupancy to 91.8% from 89.6%, QoQ lower WALE to 3.3 yrs from 3.4 yrs (short-term leases)

Singapore Consumer

Loosening purse string

Soh Lin Sin

Phillip Securities Research Pte Ltd

17 April 2017

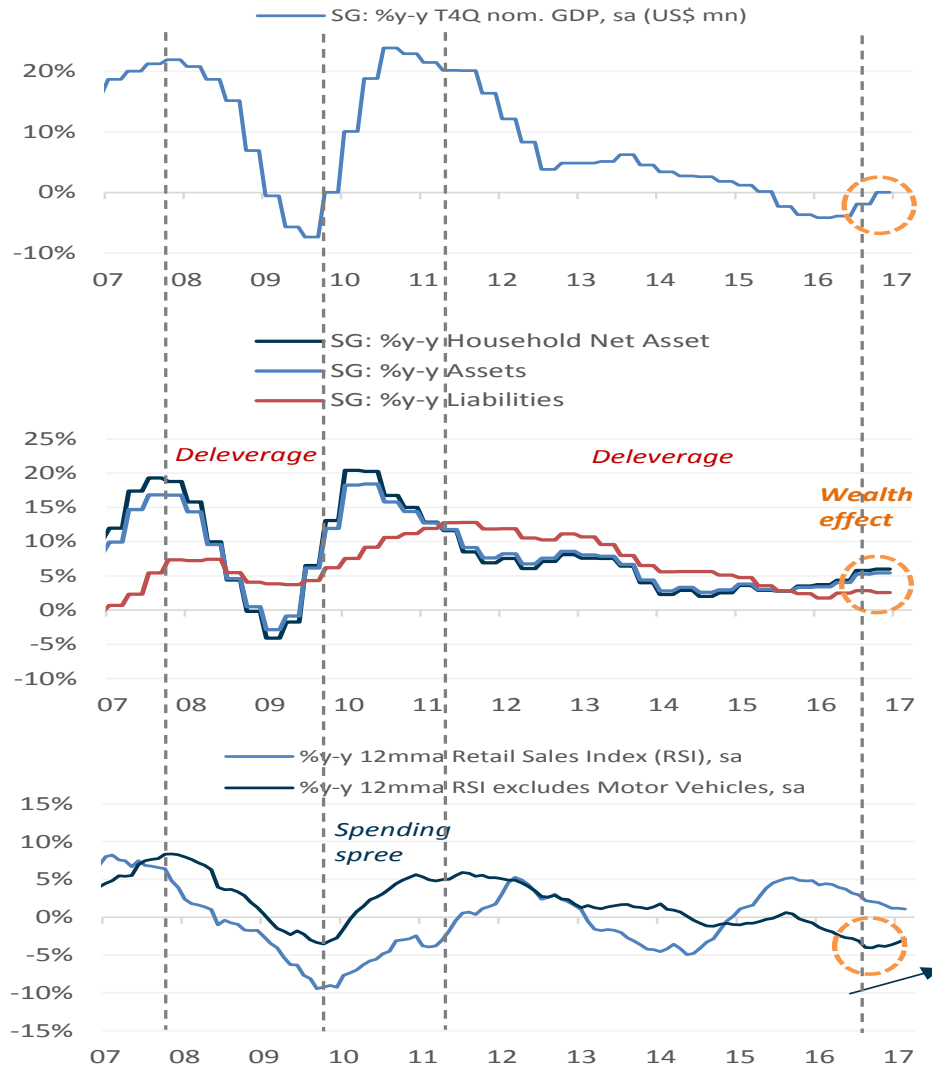
Retail outlook brighten, expect to turnaround in near term on the back of higher demand and favourable employment condition

Renewed optimism on a better prospect of Singapore economy will lift consumer sentiment; while growing household net worth encourage consumers to spend

Indicators showed that: (i) Consumers are spending more on Food & Beverages and dining out more often; (ii) consumer preference shift back to Supermarkets; and (iii) potential recovery in luxury goods

Earnings to drive share price; waiting for more evidence of economy growth trends and improved profits to catch up with the valuation

Growing optimism over economic outlook to fuel spending



'07: SG economy slowed down from its peak, retail sales started to decline

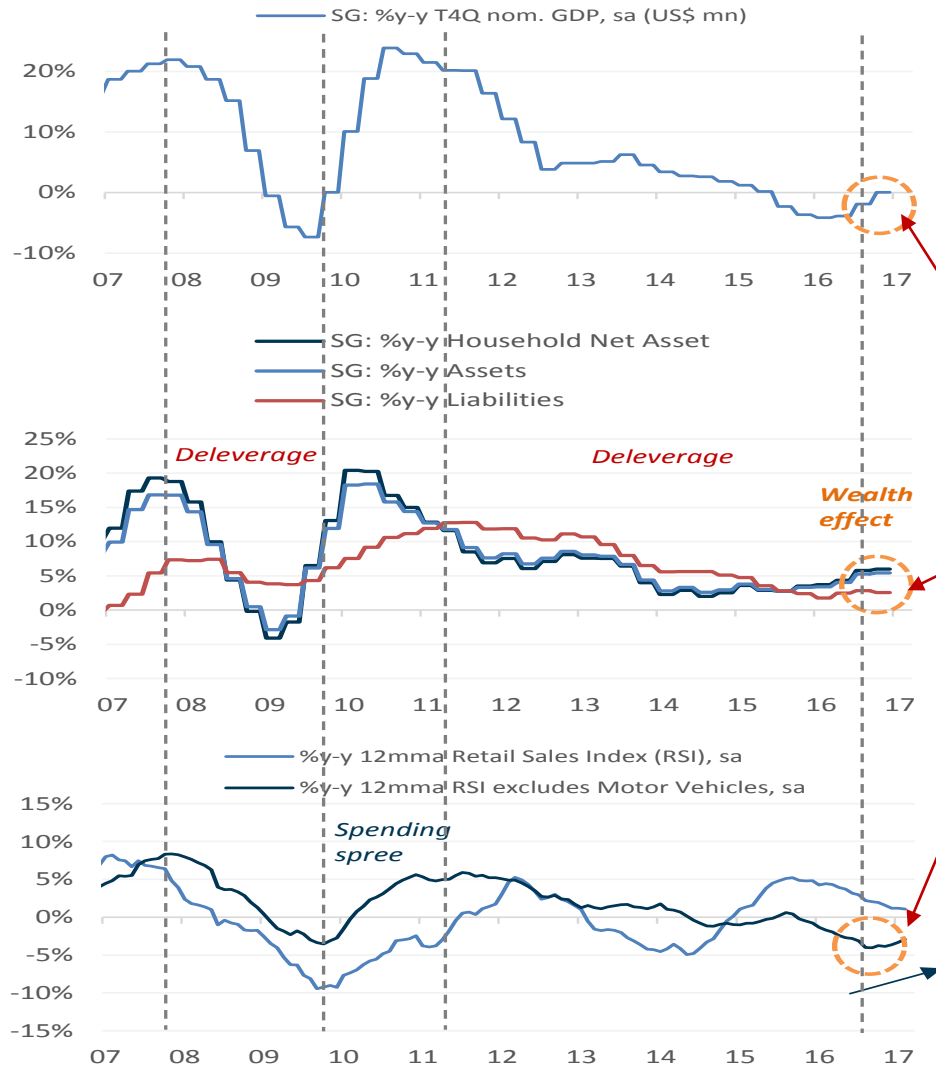
'07 to '09: deleveraging; households borrowed less

'09 to '14: low interest rates spur spending and borrowing; Retail sales rebounded by end-2009 after economy showed clearer sign of bottoming out

'11: European debt crisis; retail sales started to slowdown following the sluggish economy growth

Source: CEIC, PSR

Growing optimism over economic outlook to fuel spending



Retail sales should turnaround in near term:

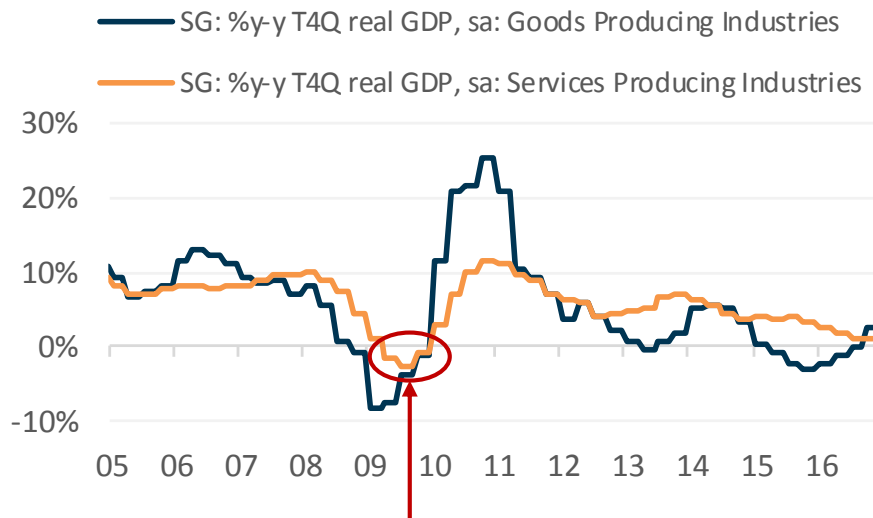
- SG economy showed sign of bottoming up in late 2016;
- The growth of household assets outpaced the growth of loans in mid-2015 (wealth effect)

Source: CEIC, PSR

Resilient Services sector

2016 SG GDP

Services Producing Industries vs
Goods Producing Industries
= c.67% vs c.24%



The sector went into slight contraction of -0.8% for a year only in 2009

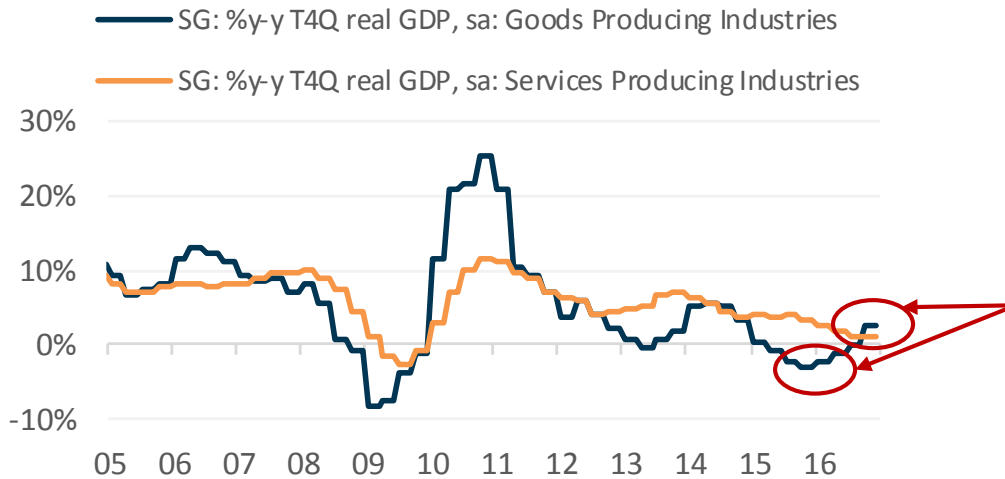
Growth in Services Producing Industries has slowed down but unlikely to fall into contraction:

- Backed by resilient domestic demand
- Current situation is nowhere near 2007-08 GFC as global economy outlook brightens

- a. The IMF is looking to revise its forecasts for 2017 and 2018 global economy growth
- b. SG economic growth is expected benefit from the ripple effects of higher external demand, rebounding global commodity prices and domestic reforms within the region

Source: CEIC, PSR

Robust growth in Manufacturing sector

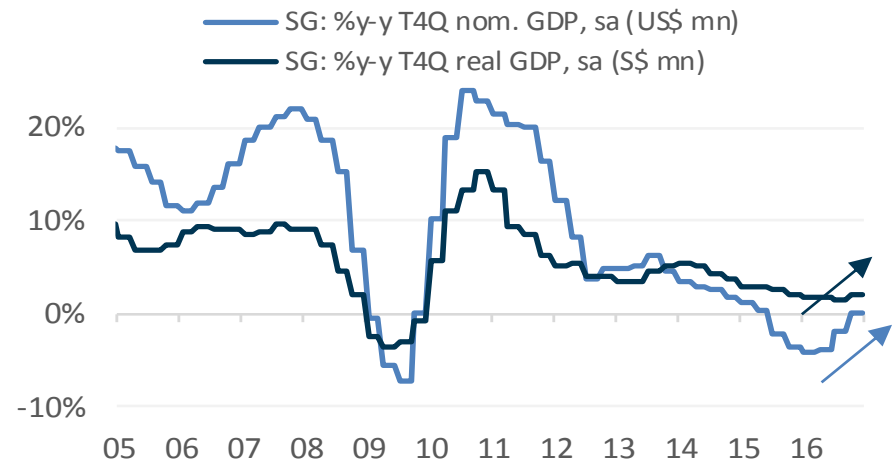


Source: CEIC, PSR

- Goods Producing Industries had a strong recovery in the 4Q2016

Goods Producing Industries rebounded to 2.8% yoy growth in 2016 vs -3.1% in 2015

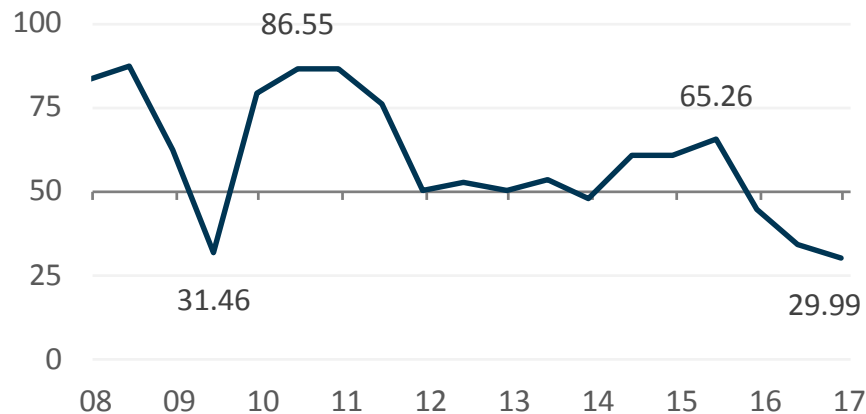
Improving Goods Producing Industries and a resilient Services Producing Industries signal a pick-up in economic growth in near term



Source: CEIC, PSR

Renewed optimism to lift consumer confidence

Singapore MasterCard Asia Pacific Consumer Confidence



Source: Bloomberg

- The latest survey was at pessimistic level in 2H 2016; but likely to bottom out soon
- The stronger economic indicators signal a brighter economy prospect, translating to an improved consumer sentiment, which will fuel private expenditures

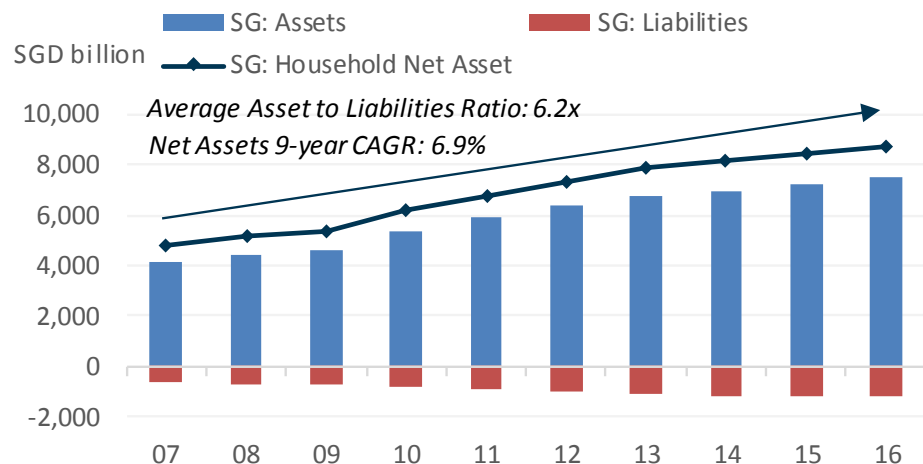
Based on a scale of 0 to 100

0 : the most pessimistic

40 – 60 : neutral

100 : the most optimistic

Growing household net worth induces household spending

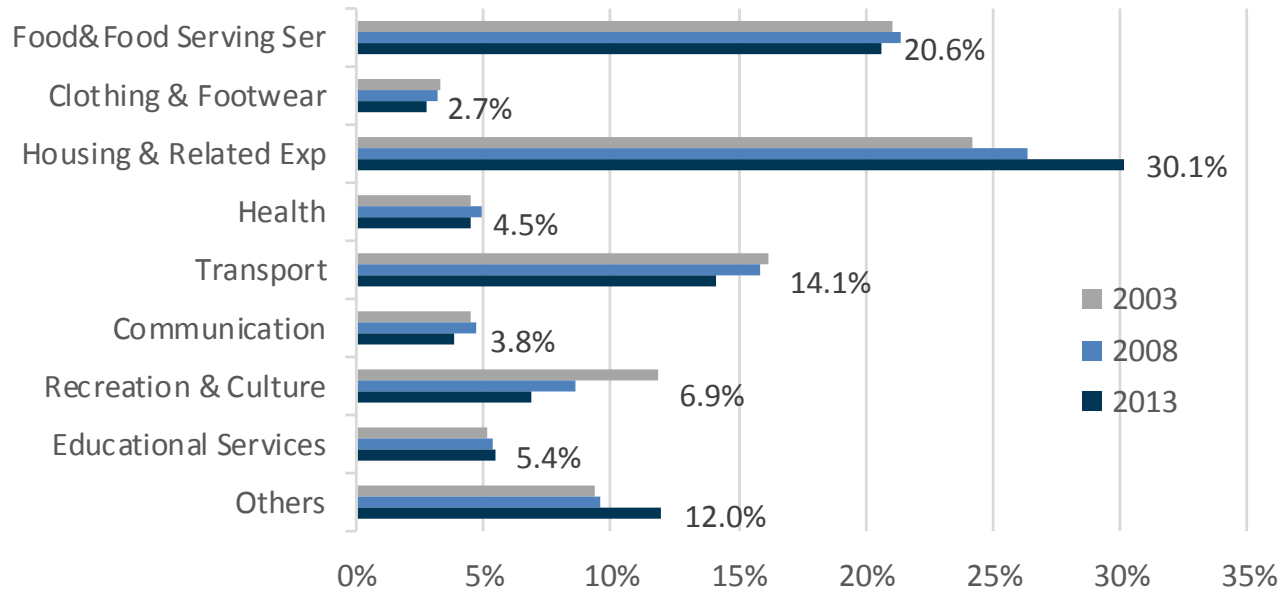


Source: CEIC, PSR

- SG's nominal GDP grew at a CAGR of 5.7% between 2007 to 2016; the net assets of Singapore households grew at 6.9%
- Debts are backed by assets which are unlikely to experience a sharp decrease in their value
- Currency and deposits, Central Provident Fund and Residential Property account for 83% of 2016 household assets

What are Singaporeans spending on?

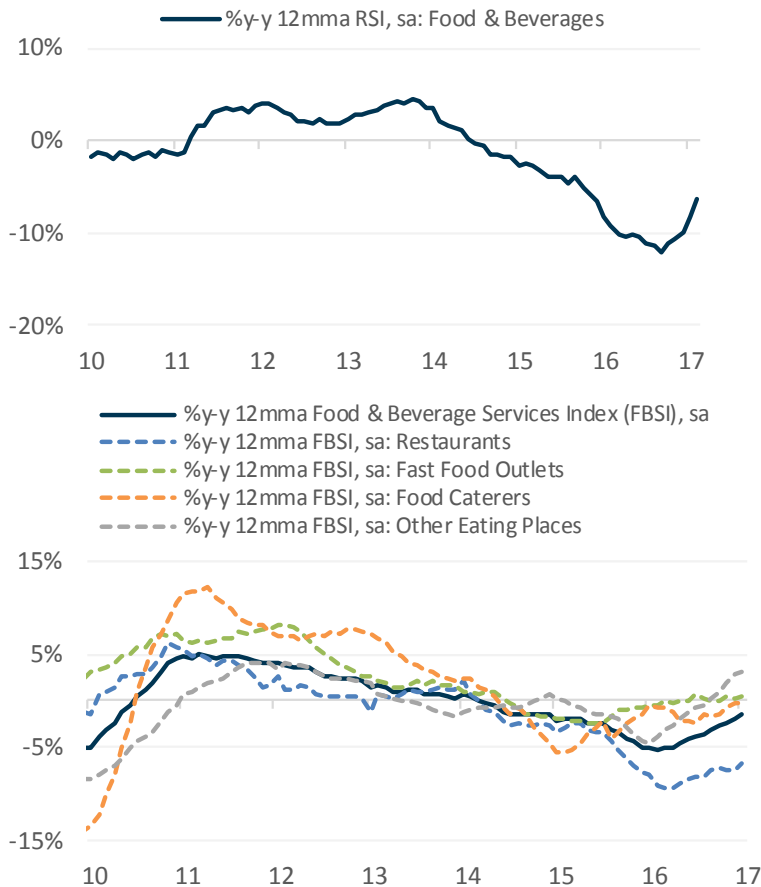
Distribution of Monthly Household Expenditure



Source: CEIC, PSR

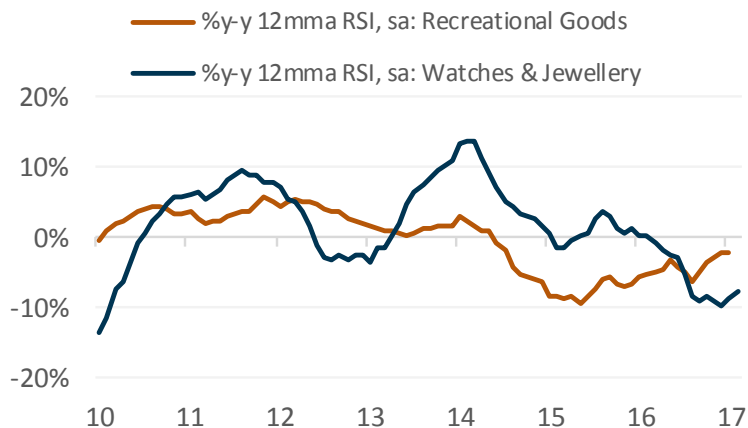
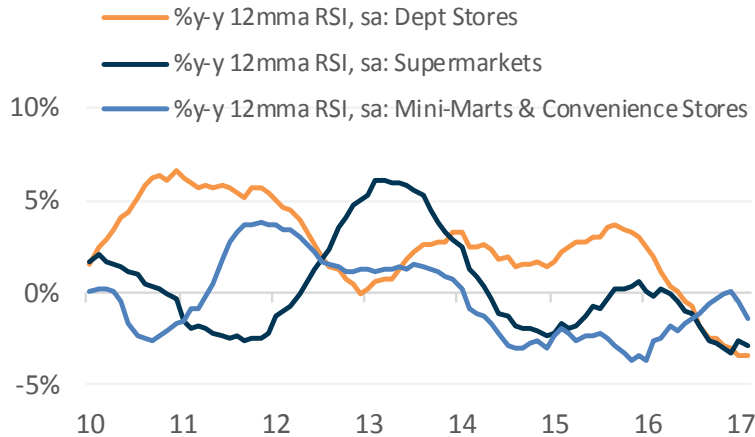
Mostly on Housing, Food and Transport
(c.65% of 2013 total household expenditure)

More on F&B and dining out more often



- Singaporeans are more willing to spend more on Food & Beverages – which could be in terms of volume and/or value (price point)
- F&B Services sub-index for Restaurants, which is most sensitive to economic climate, is gaining traction, underscoring that consumers are more upbeat of their future income.

Source: CEIC, PSR



Source: CEIC, PSR

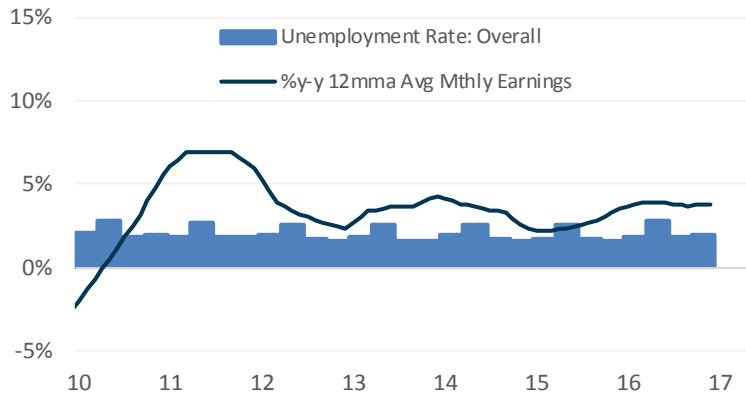
Sign of consumers preferring Supermarkets over Mini-Marts & Convenience Stores

- Supermarkets requires more money and travel time compared to mini-marts

An uptick in cyclical expenditures

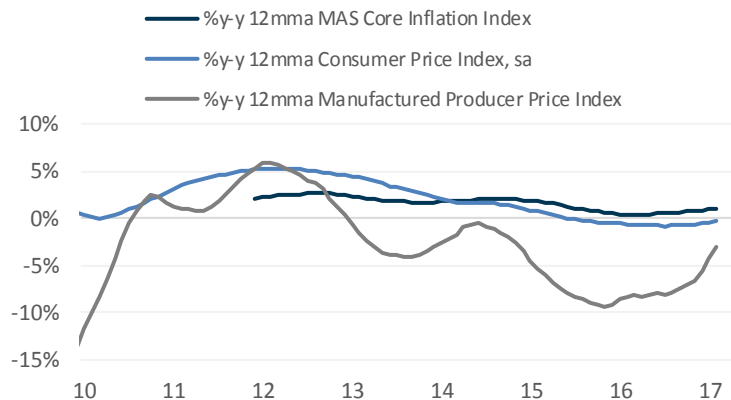
- Both Cyclical Goods sub-indices are gaining traction, implying a renewed interest in international travel and frivolous purchases

Purchasing power of consumers and costs



Employment and wages

- Unemployment rate to remain stable and low at c. 2%
- The tight labour market should underpin wage growth and thus supports our view on higher household spending in 2017

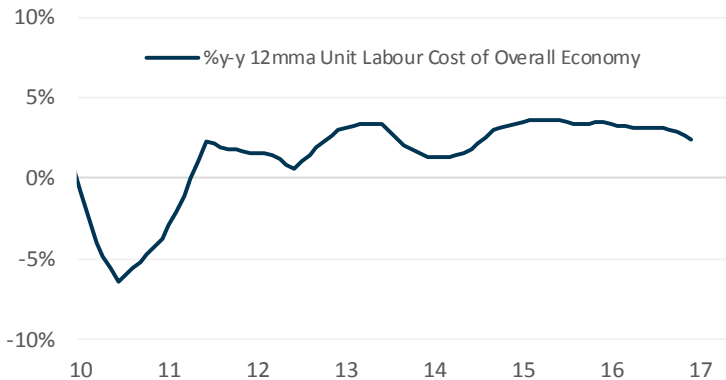


Rising costs at factory gate may translate to higher retailing price

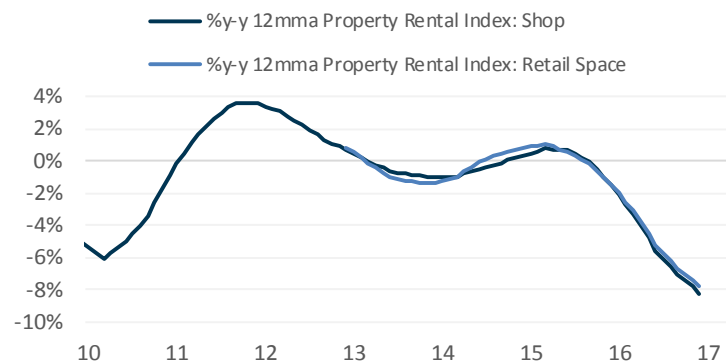
- Inflation remains muted in near term, but wholesale prices are at an upward trend
- If the growth in wholesale prices accelerates, we may see higher retailing prices by end of the year

Source: CEIC, PSR

Lower OpEx to offset higher input costs



- However, retailers may need to absorb the additional costs and embrace margin compression due to fiercer competition



- Nonetheless, easing pressure from labour costs and lower rental expenses could help to reduce operating expenses

Source: CEIC, PSR

Recall PSR's house view:

The US Fed is behind the curve of raising interest rate, and interest rate hike to be steep instead the expected gradual rise

(a) FX risk

- Higher US interest rates may cause capital outflows, which could in turn weaken local currency. But central bank and government had prepared to contain pressures on exchange rates and consumer prices.
- MAS maintained its neutral policy stance of zero per cent appreciation of the S\$NEER for an “extended period”

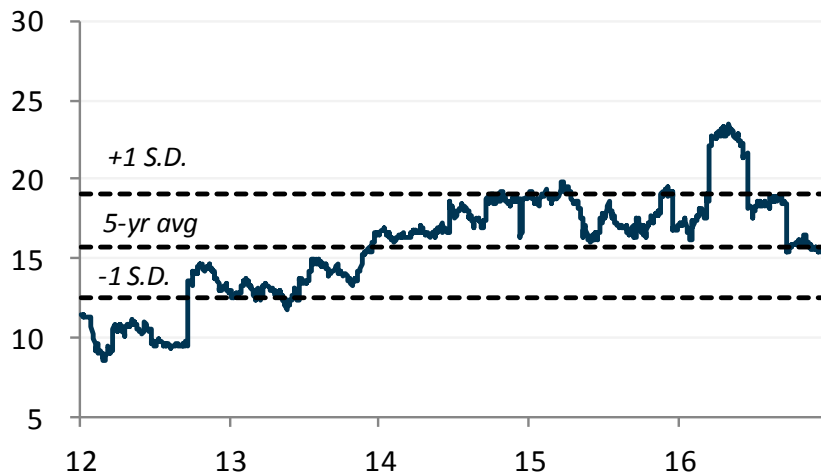
(b) Credit implications, burden to service debts

- Household leverage has increased in recent years, but we think the risk should be contained by favourable economic growth and employment conditions

Earnings to drive share price

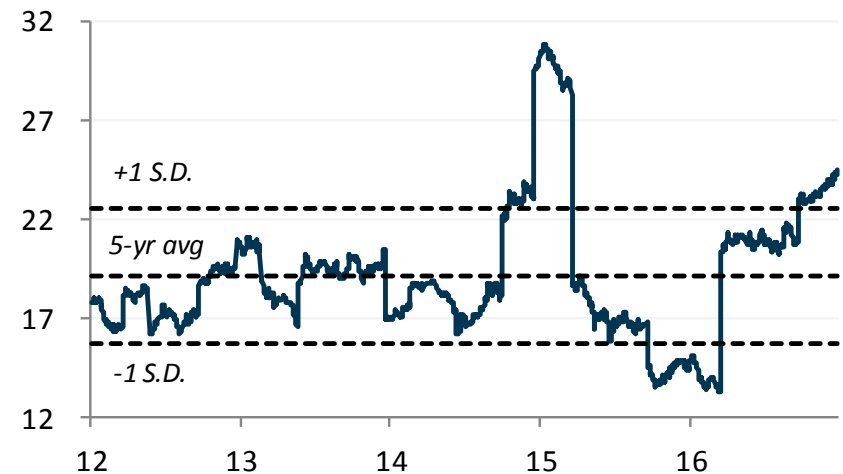
Waiting for more clarity about economic growth trends and corporate earnings – if the economy and profits can catch up with the valuation

5-year historical PE of FTSE ST Consumer Goods Index



Source: Bloomberg, PSR

5-year historical PE of FTSE ST Consumer Services Index



Consumers Sectors Top 10 Market Cap

Company	CIGS Industry	Mkt Cap (SGD mn)	Price (S\$)	PSR Rating	PSR Target		1-Yr Total Return (%)	1-Yr EPS Growth (%)	Div. Yield (%)	EV/EBITDA TTM	EBITDA Margin	P/E	P/B	Net D/E (%)	ROA (%)	ROE (%)
					Price (S\$)	PSR Target										
Consumer Staples (Top 10 Highest Market Cap)																
Wilmar International Ltd	Food Products	22,124.2	3.50				5.7	-4.3	1.9	14.2	5.6%	16.3	1.1	83.2	2.6	6.7
Olam International Ltd	Food & Staples Retailing	5,214.5	1.91				17.7	539.4	3.1	15.4	6.5%	16.6	1.2	204.6	1.6	7.5
Golden Agri-Resources Ltd	Food Products	4,584.5	0.36				-8.8	3,825.0	1.7	11.2	7.9%	8.2	0.8	62.5	4.9	10.3
Fraser and Neave Ltd	Beverages	3,385.9	2.34	Reduce	1.80		19.9	-83.0	1.9	17.8	9.3%	32.2	1.3	Net Cash	3.0	4.0
First Resources Ltd	Food Products	2,898.9	1.83				-4.3	16.2	1.6	9.3	46.0%	16.6	2.4	36.7	6.9	13.4
Sheng Siong Group Ltd	Food & Staples Retailing	1,488.5	0.99	Accumulate	1.06		20.2	10.3	3.8	15.1	11.3%	23.8	5.9	Net Cash	16.6	25.2
Super Group Ltd/Singapore	Food Products	1,443.0	1.30				33.6	-6.1	1.7	15.2	15.9%	32.5	2.7	Net Cash	6.2	8.3
Japfa Ltd	Food Products	1,423.8	0.81				37.4	83.4	1.2	5.4	12.7%	8.8	1.6	46.7	5.0	21.4
Delfi Ltd	Food Products	1,375.1	2.25				-13.7	71.2	1.4	18.1	12.7%	37.7	4.9	Net Cash	7.2	11.8
Yeo Hiap Seng Ltd	Food Products	794.3	1.38				8.2	-21.6	1.5	15.2	11.0%	27.4	1.2	Net Cash	3.9	4.5
Consumer Staples (Small Cap)																
Old Chang Kee Ltd	Food Products	103.2	0.85	Buy	0.98		36.2	-5.7	3.5	6.6	15.8%	21.5	3.3	Net Cash	9.1	14.6
Simple Average							13.8	402.2	2.1	13.0	14.1%	22.0	2.4	86.7	6.1	11.6

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

We have an '**Accumulate**' rating on Sheng Siong (TP: S\$1.06) and a '**Buy**' rating on Old Chang Kee (TP: S\$0.98)

→ *Both companies are expanding their store counts, gaining economies scale and improved operating efficiencies via automation and utilization of their central warehouse/kitchen*

Conclusion: Retail sales to rebound

Despite lingering uncertainties:

- **Green shoots of recovery in Singapore economy:** Improving Goods Producing Industries will lift GDP growth
- Brighter prospects on Singapore economy would **lift consumer sentiment**; while **wealth effect** from increasing household net worth would **spur spending**
- With **higher wages and stable unemployment rate**, consumers have **higher purchasing power**
- **Positive signals:** Consumers are spending more on Food and Beverages, dining out more often, supermarket and luxury spendings showed signs of recovery

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