



# Elite Commercial REIT

## De-risked with stable cash flow till FY28

### Singapore | REIT | FY23 RESULTS

- Gross revenue for FY23 was within expectation and increased by 1.5% YoY to £37.6mn due to rental escalation but offset by eight assets vacated in Apr23. NPI surpassed estimates by 9%, summing to £41.4mn due to the £8mn dilapidation settlement with respect to vacated assets.
- DPU within our expectations after retaining 10% of distribution. DPU down to 3.42 pence (-28.9YoY). ELITE planned to retain a 10% distribution in the face of macroeconomic uncertainty; the actual distribution after retention was 3.07 pence.
- We reiterate our BUY recommendation with a lower DDM-TP of £0.34 (prev. £0.36) and FY24e-25e DPU forecasts of 3.89 pence to 4.61 pence. ELITE has been largely de-risked with healthier gearing at 40.9% and stable cash flow till 2028 since there's no more break clause. ELITE is currently trading at FY24e dividend yields of 14.97% and 0.68x P/NAV.

#### Result at a glance

(£ Mn)	2H23	1H23	HoH (%)	2H22	YoY (%)	FY23	FY22	YoY	Comments
Gross Revenue	18.5	19.1	0.9%	18.4	0.9%	37.637	37.05	1.5%	Rent escalations, offset by 8 assets vacated in Apr23
Net Property Income	21.4	20.0	21.1%	17.6	21.1%	41.4	35.7	15.7%	£8mn Dilapidation
DPU (cents)	1.5	1.94	-34.2%	2.3	-34.2%	3.42	4.81	-28.9%	Enlarged unit base + financing cost
Cost of debt	5.2%	5.2%	-	4.6%	13ppt	5.1%	4.6%	10.9ppt	
Gearing	47.5%	46%	3.3ppt	45.80%	3.7ppt	40.9%	45.80%	(10.7ppt)	£28mn PO to pay down debt
Occupancy rate	92.30%	92.10%	0.2ppt	97.90%	(5.72ppt)	92.30%	97.90%	(5.72ppt)	
NAV per share	0.43	0.51	-15.7%	0.52	-17.3%	0.43	0.52	-17.3%	Divestment of £1.1mn in 1H23

Source: Company, PSR

#### The Positives

**+ De-risked after preferential offering.** With the £28mn proceeds from the preferential offering, gearing slid to 40.9%. This strategy will result in a pro forma interest expense savings of £1.1mn in FY24e, consequently improving DPU as financing costs heavily eroded it.

**+ Interest rate trajectory may reverse.** U.K. inflation remained stable in Jan24, contrary to expectations of a rise, which has prompted speculation about the potential rate cut by the Bank of England. ELITE anticipates a rate cut from 2Q/3Q24.

**+ Potential redevelopment plan.** Elite has identified a few redevelopment plans to convert the vacant offices into higher-yield assets such as student accommodation and data centers. Asset value is expected to increase to c.20% upon completion. Furthermore, ELITE is also collaborating with tenants to invest jointly in energy-efficient and sustainable features that could further enhance asset value and competitiveness in the market.

#### The Negatives

**- Further downtime due to vacant assets.** In FY23, there were 12 vacant assets, and five of them were divested at prices above book value. We expect that more time will be needed for re-letting, with four properties expected to be filled by the middle of FY24. In the meantime, the dilapidation settlement fee will cover the revenue shortage resulting from vacancies.

**- The payout ratio is expected to be maintained at 90%.** ELITE plans to restore the payout ratio to 100% once macroeconomic conditions normalize. We expect this to occur in FY25, so DPU in FY24e will be subdued.

20 February 2024

#### BUY (Maintained)

LAST CLOSE PRICE	GBP 0.27
FORECAST DIV	GBP 0.03
TARGET PRICE	GBP 0.34
TOTAL RETURN	40.0%

#### COMPANY DATA

BLOOMBERG CODE:	ELITESP Equity
O/S SHARES (MN):	586
MARKET CAP (USD mn / GBP mn):	196 / 155
52 - WK HI/LO (GBP):	0.51 / 0.2
3M Average Daily T/O (mn):	0.16

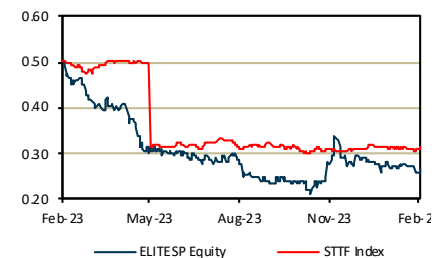
#### MAJOR SHAREHOLDERS

Reinsurance EU SE	8.7%
Partner Reinsurance Co Ltd	8.0%
Ho Lee Group Trust	7.6%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.1)	(5.7)	(7.1)
STTF RETURN	1.0	2.8	(0.5)

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

V/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (£mn)	37.1	37.6	38.8	40.6
Dist. Inc. (£mn)	23.1	14.7	22.8	27.0
P/NAV (x)	0.93	0.61	0.73	0.73
DPU (cents)	4.81	3.07	3.89	4.61
Dist. Yield (%)	10.02	11.81	14.97	17.74

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity:13.48%; Terminal g: 1%)

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**Outlook**

ELTE reports that the demand in the UK real estate market is currently driven by local owner-occupiers and potential buyers seeking properties for redevelopment due to the shortage of residential units. With interest rate trends heading downward, a pick-up in transaction activity is expected, paving the way for on-track asset monetization. Furthermore, ELTE is expected to deliver stable cash flow until 2028. This stability is bolstered by the absence of any remaining break clauses, which previously allowed for early termination and rental reductions.

**Maintain BUY with a lower TP of £0.34 (previous £0.36)**

ELITE currently trades at an attractive FY24e dividend yield of 14.97% and a P/NAV ratio of 0.68. We believe this valuation is attractive. Due to the lack of a clear growth catalyst, our DDM-adjusted target price has been lowered to £0.34 (prev. £0.36) with forecast FY24-25e DPU of 3.89 -4.61 pence, assuming 100% payout.

## Financials

### Income Statement

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Revenue</b>	34.73	37.08	37.64	38.80	40.64
Property Expense	(1.00)	(1.33)	(3.84)	(0.56)	(2.40)
<b>Net Property Income</b>	33.73	35.74	33.80	38.24	38.24
Interest Cost	(4.85)	(7.42)	(12.36)	(10.89)	(9.13)
<b>Total return before before tax</b>	(3.37)	(16.84)	(21.38)	22.95	24.47
Tax Expense	(1.37)	(1.50)	(0.79)	(0.90)	(0.90)
<b>Net income after Tax</b>	(4.74)	(18.33)	(22.17)	22.05	23.57
Amount available to unitholders	32.87	36.46	28.90	25.31	27.01
<b>Distribution to unitholders</b>	24.53	23.10	14.69	22.78	27.01

### Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (\$\$)	0.61	0.52	0.43	0.36	0.36
DPU (£ cents)	5.43	4.81	3.07	3.89	4.61

### Cash Flow

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Total return for the period before</b>	(3.37)	(16.84)	(21.38)	22.95	24.47
Adjustments	<b>35.24</b>	<b>48.80</b>	<b>59.75</b>	<b>14.07</b>	<b>12.48</b>
WC changes	(6.26)	(1.68)	8.93	(9.61)	(0.30)
Tax paid and interest received	(2.92)	(2.42)	(2.94)	(0.90)	(0.90)
<b>Cash generated from ops</b>	22.69	27.86	44.55	26.50	35.74
<b>CFI</b>					
CAPEX	-	(7.44)	(3.67)	-	-
<b>Cashflow from investments</b>	(9.40)	(7.44)	(0.46)	-	-
<b>CFF</b>					
Interest Payment	(3.57)	(5.28)	(11.18)	(10.89)	(9.13)
Distributions to unitholders	(17.59)	(22.79)	(18.49)	(22.78)	(27.01)
<b>Cashflow from financing</b>	(14.10)	(33.15)	(33.92)	(33.67)	(36.14)
<b>Net change in cash</b>	<b>(0.81)</b>	<b>(12.73)</b>	<b>10.17</b>	<b>(7.17)</b>	<b>(0.39)</b>
Cash at the start of the period	18.98	18.17	5.44	15.61	8.44
<b>Ending cash</b>	<b>18.17</b>	<b>5.44</b>	<b>15.61</b>	<b>8.44</b>	<b>8.04</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Cash and short term deposit	19.48	7.44	20.82	8.44	8.04
Trade Receivables	12.03	11.87	2.87	12.43	13.01
<b>Total current assets</b>	<b>31.51</b>	<b>26.75</b>	<b>29.84</b>	<b>31.06</b>	<b>31.25</b>
Investment properties	501.35	459.98	413.72	413.72	413.72
<b>Total non-current assets</b>	<b>501.86</b>	<b>460.04</b>	<b>414.20</b>	<b>414.20</b>	<b>414.20</b>
<b>Total Assets</b>	<b>533.36</b>	<b>486.80</b>	<b>444.04</b>	<b>445.26</b>	<b>445.46</b>
<b>LIABILITIES</b>					
Trade payables	5.63	4.82	4.76	5.04	5.28
Loans and borrowings	6.60	7.20	126.29	126.29	126.29
Others	9.83	10.41	10.51	10.51	10.51
<b>Total current liabilities</b>	<b>22.06</b>	<b>22.43</b>	<b>141.56</b>	<b>141.84</b>	<b>142.08</b>
Loans and borrowings	217.25	213.07	94.02	94.02	94.02
Deferred tax liabilities	3.80	2.17	1.22	1.22	1.22
<b>Total non-current liabilities</b>	<b>222.29</b>	<b>216.47</b>	<b>95.25</b>	<b>95.25</b>	<b>95.25</b>
<b>Total Liabilities</b>	<b>244.35</b>	<b>238.89</b>	<b>236.80</b>	<b>237.09</b>	<b>237.32</b>
<b>Net assets</b>	<b>289.02</b>	<b>247.90</b>	<b>207.24</b>	<b>208.18</b>	<b>208.13</b>
<b>Represented by:</b>					
Unitholders' funds	289.02	247.90	207.24	208.18	208.13

### Valuation Ratios

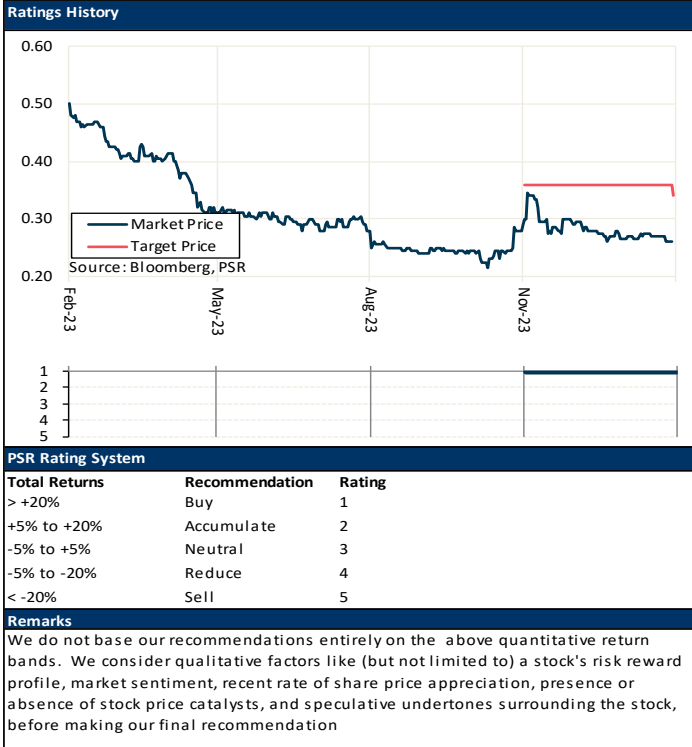
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.10	0.93	0.61	0.73	0.73
Distribution Yield (%)	8.17	10.02	11.81	14.97	17.74

### Growth & Margins

Growth					
Revenue		6.75%	1.52%	3.10%	4.74%
Distributable income		-5.83%	-36.41%	55.13%	18.55%
DPU		-11.42%	-36.17%	26.75%	18.55%

### Key Ratios

ROE	-	-	-	2.65%	2.83%
Gearing	0.42	0.45	0.41	0.41	0.41



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