

# Elite Commercial REIT

Attractive valuations with monetisation underway

## SINGAPORE | REIT | INITIATION

- The rental escalation of around 11% that is tied to CPI began in Apr23. We believe there is downside protection from the UK government department, contributing 93.2% of the total rental income, with no further break clause until FY28.
- ELITE is actively reducing leverage through divestments. As of 3Q23, the total proceed of £11.4mn reduced the gearing by 60bps to 45.4%. 4 assets, valued at c.£13.8mn, are ready for the next round of divestment, and they are expected to lower gearing by c.100bps further.
- At 0.59x P/NAV (FY23e, NAV:0.51), ELITE is currently trading at 1.13 SD below its mean of 0.93 P/NAV, and below the average SREIT historical valuation of 0.86x P/NAV. We initiate coverage with a BUY recommendation and a DDM-based target price of £0.36. ELITE is paying a dividend yield of 16.6%.

### Company Background

Elite Commercial Trust (ELITE) was listed on 6<sup>th</sup> Feb 2022. It specializes in commercial and real estate-related assets within the United Kingdom (UK). Its portfolio consists of 155 predominantly freehold commercial buildings located throughout the UK, with a combined valuation of £466.2mn as of Dec22. Over 99% of gross rental income originates from the UK Government, such as Department for Work and Pensions (DWP 93.2%), Ministry of Defense (2.4%) and National HM Courts and Tribunals Services (1.7%).

### Key Investment Merits

- Stable income stream with CPI-tied escalation.** In 3Q2023, DWP contributed a substantial 93.2% to the portfolio's Gross Rental Income (GRI). The tenant is a government department, with a consistent record of paying 100% of rental a quarter in advance. ELITE also has 139 assets that are positioned to take advantage of the built-in rental escalations tied to the CPI, commencing in Apr23. The expected range for rental escalation across these assets spans from 11.0% to 15.4%.
- Divestment for monetisation.** ELITE is actively working on the divestment plan to reduce gearing. As of 9M23, Openshaw Jobcentre in Manchester, Cardwell Place in Blackburn and Leeds Road in Bradford have been divested. These divestments, £3.4mn were executed at c.12.2% above valuation, contributing to a total gross proceeds of £11.4mn and reducing gearing by 60 basis points to 45.4%. To account for a potential 5% decline in year-end valuations, ELITE may need to divest c.£10.8mn more in assets. Four assets have recently completed the dilapidation settlement (Crown House, Sidlaw House, Lindsay House, Ladywell House, or Hilden House) and are ready to be sold or re-let. If ELITE decides to divest them at book value, this could result in a divestment proceed of c.£13.8mn to offset the deterioration in gearing. Buyers are observed to be end-users acquiring properties for their own use or private developers for residential development, as there is currently an undersupply of properties in the UK.
- Valuation near record low.** Elite is trading at 0.59x P/NAV, which is 1.13 SD below its historical mean of 0.93, and is also below the average S-REIT of 0.86x P/NAV. Taking the industry average multiple and the NAV of 0.51, the implied share price would be £0.44. Much of the risk such as the potential gearing breach has been factored into the current share price and we believe the discount is attractive.

We initiate coverage with a BUY rating and a target price of £0.36 based on DDM valuation, COE of 10.89%, and terminal growth of 1%. We expect DPU of £4.97 cents for FY23e and £5.5 cents for FY24e, translating into yields of 16.58% and 18.35%, respectively.

27 November 2023

### BUY (Initiation)

LAST CLOSE PRICE	GBP 0.30
FORECAST DIV	GBP 0.05
TARGET PRICE	GBP 0.36
TOTAL RETURN	37.7%

#### COMPANY DATA

BLOOMBERG CODE:	ELITESP Equity
O/S SHARES (MN):	483
MARKET CAP (USD mn / GBP mn):	181 / 145
52 - WK HI/LO (GBP):	0.54 / 0.21
3M Average Daily T/O (mn):	0.21

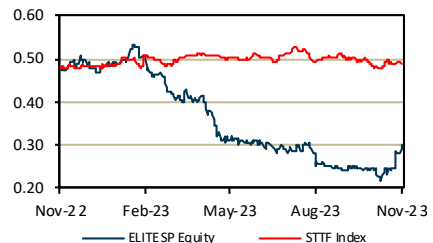
#### MAJOR SHAREHOLDERS

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	22.4	20.0	(29.2)
STTF RETURN	0.9	(1.2)	(0.4)

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev (£mn)	34.7	37.1	37.4	40.9
Dist. Inc. (£mn)	32.9	36.5	23.9	26.5
P/NAV (x)	1.10	0.93	0.58	0.58
DPU (cents)	5.43	4.81	4.97	5.50
Dist. Yield (%)	8.17	10.02	16.58	18.35

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity: 18.34%; Terminal g: 1%)

LIU MIAOMIAO (+65 94673476)

Research Analyst

liumm@phillip.com.sg

## Revenue

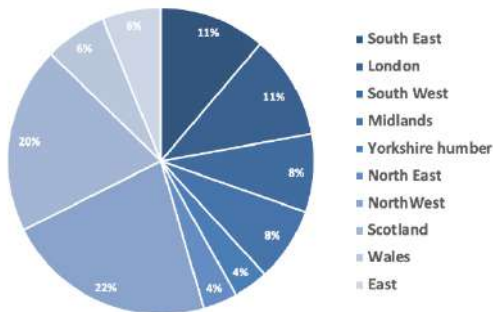
### Gross revenue

In 3Q23, DWP made up for 93.2% of the portfolio's Gross Rental Income (GRI). The tenant enables strong consistent rental collection of ~100% a quarter in advance. A total of 139 assets within the portfolio are designed to benefit from the built-in rental escalation tied to the CPI starting in Apr23. The estimated range for rental escalation across these assets is between 11.0% and 15.4%.

### Dilapidation settlement

Dilapidation assessment for vacating assets refers to claim for damages by the landlord against the tenant's cost of repair. As of 3Q23, ELITE had completed 9 dilapidation settlements and received £1.9mn settlement fee and £0.4mn of lease surrender premium in 2Q23 and £8mn dilapidation fee in 3Q23. The settlements for 3 assets are still in progress. Divestment can only proceed upon completion of dilapidation settlement. So, we anticipate the next divestment is likely to be one of the 4 properties (Crown House, Sidlaw House, Lindsay House Ladywell House, or Hilden House) as the dilapidation settlement has already been completed.

Figure 1: Income Contribution breakdown by region

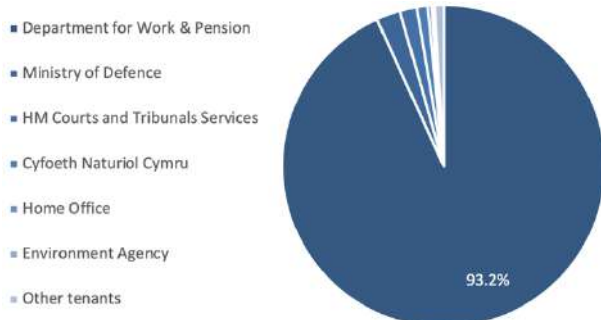


Source: Company, PSR

## Tenant Profile

DWP's social services remains essential for UK citizens, as they continue to provide support over 22mn claimants as of Feb22. As the largest public service department under the UK Government, it is responsible for important services such as welfare, pensions, and child maintenance, DWP disbursed a total of £217 billion in benefits and pensions during FY21/22. Around 85.5% of the assets within the REIT's portfolio that are occupied by DWP serve as front-of-house facilities, primarily operating as front-facing Jobcentre Plus offices. The remaining 14.5% of assets serve as back-of-house support services, encompassing call centers, claims processing, finance, accounts, and investigation functions. DWP tends to expand during the economic downturns along with raising unemployment as it plays an important role in boosting employment and in-work progression, as well as delivering vital support and services to people in need in society.

Figure 2: Tenant Breakdown by Gross Rental Income as of 3Q23



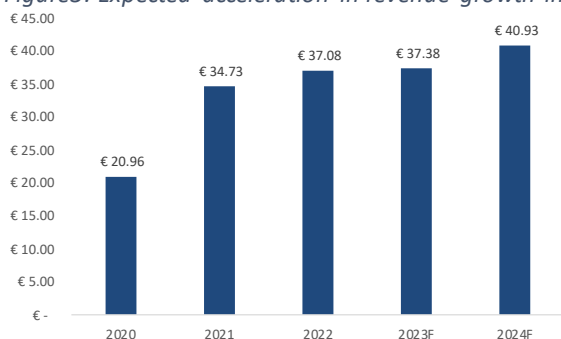
Source: Company, PSR

## Revenue Growth

We expect 0.82% YoY revenue growth for FY23e, amounting to \$37.38mn. The CPI-tied rental reversion of 13.1%, which took effect in April 2023, is expected to be partially offset by 12 vacant buildings and 11 rental reductions (c.30%), contributing to 2% of the FY22 income in the portfolio. Despite the current conservative economic outlook, we remain positive about the stable income stream provided by the major tenant, DWP, as there is no more break clause for further rental reduction or lease expiring until FY28.

Due to the low physical occupancy (an average of 50%) in the UK, 11 properties had reduced their rental, with 3 at 45% and 8 at 30%, contributing to a total of 2% revenue reduction. ELITE has been actively working on divesting the 8 vacant assets, which account for c.5% of the total rental income. The balance sheet has improved at the cost of eroding the topline. We continue to expect an improvement in sequential growth in 2H23, though we see risks from the depressing physical occupancy.

Figure 3: Expected acceleration in revenue growth in FY24e (£mn)



Source: Company, PSR

## Expense

The operating expenses include, but are not limited to compliance with laws, regulations or policies, direct or indirect tax policies, laws or regulations, sub-contracted service costs, labour costs, and repair and maintenance costs.

Figure 4: ELITE's Fee Structure

ELITE's Fee Structure	
Base fee	10.0% of Elite Commercial REIT's Annual Distributable Income
Performance fee	25.0% of the increase in DPU in a financial year over the DPU in the preceding financial year
Trustee's fees	shall not exceed 0.015% per annum of the value of the Deposited Property, subject to a minimum amount of S\$15,000 per month
Acquisition fee	1.0% (or such lower percentage as may be determined by the Manager in its absolute discretion)
Divestment fee	0.5% (or such lower percentage as may be determined by the Manager in its absolute discretion)
Development management fee	3.0% of the Total Project Costs
Lease management fee	1.0% per annum of Revenue
Property management fee	Fixed annual property management fee of £235,600 to be paid quarterly

Source: Company, PSR

## Sponsor:

The sponsors of ELITE include Elite Partners Holdings (EPH), the Ho Lee Group, and Sunway RE Capital.

**Elite Partners Holdings Pte. Ltd** serves as the investment holding company for Elite Partners Group and headquartered in Singapore. Its an alternative investment and asset manager specialising in niche opportunities and underserved markets. The firm has managed assets in excess of S\$2 billion across 7 countries.

Ho Lee Group Pte. Ltd: From its inception in 1996, HLG had gone on to acquire Wee Poh Construction Co. (Pte) Ltd (WPC) in 2005 which was a civil engineering construction company

graded by the Building Construction Authority of Singapore (BCA) with an A1 grading (the highest grade) under the workhead CW02.

Sunway RE Capital Pte. Ltd: The Sunway Berhad Group comprises three public listed entities, Sunway Berhad, Sunway Construction Group Berhad, and Sunway REIT, with a combined market capitalisation of c.RM5.0bn as at 30 Sept23.

**Tax:** There is no withholding tax for individual unitholders according to Section 286 of the SFA. ELITE has been reporting the its distribution rate with classification of taxable income and tax-exempted-income. Since listing, tax as a percentage of total return before tax ranges from 1.4% to 5.7%.

**Dividend distribution:** ELITE is paying quarterly dividend. Since listing in 2020, ELITE has a consistent track record of paying 100% of its Distributable Income. However, we expect the dividend payout ratio to be at 90% in FY23 to fund CAPEX and strengthen the financial position.

## Industry

### UK Office

CBRE Research has observed that pricing is projected to reach a state of stability in 2023, potentially spurring increased investment activity. In 2023, it is anticipated that office investment volumes will decline by c.20% compared to the previous year, with a concentration of transactions expected in the latter part of the year. Yields are also expected to rise in 2023, with a return to prime yield compression across UK office markets anticipated to begin in 2024 and continue through 2027.

CBRE also expected a deceleration in the UK economy will have a negative effect on the demand for office space. CBRE's data shows that office-based employment in the UK is projected to decrease by c.1% in 2023. While this decline in office jobs will affect all markets, the expected decrease is less pronounced in Central London compared to other markets. Due upward trend of the unemployment rate, it is anticipated that the office space demand across UK office markets in 2023 will experience a 7% decrease compared to the levels seen in 2022. This decline is slightly below the usual trend levels.

### UK unemployment

In 2023, it is projected that the annual unemployment rate in the United Kingdom will reach 4.1% (+0.4% YoY, 2022: 3.7%). It is expected to have a further rise to 4.4% by 2024, before gradually decreasing to 4.1% by 2027. The unemployment rate has generally been on a downward trajectory in the United Kingdom since reaching its peak of 8.1% in 2011.

Figure 5: 10 UK office-based employment growth forecasted to increase in 2024



Source: Company, PSR

### UK inflation

The Organisation for Economic Co-operation and Development said UK inflation would average 7.2% in 2023. The think-tank said this would be the highest rate in the G7 group, which includes the US, Germany, France, Japan, Canada, and Italy. The Bank of England has decided to keep interest rates unchanged, putting an end to a series of 14 consecutive rate hikes. For September, the Bank rate, as determined by the Monetary Policy Committee, remained steady at 5.25%, with no changes from the previous month.

### Balance sheet

As of 3Q23, ELITE's aggregate leverage stood at 45.4% with average funding cost increased to 5.3% (+110bp YoY). Adjusted ICR stayed at a healthy level of 3.3x thus indicating regulatory gearing cap of 50% and debt headroom of £40mn. ELITE has hedged c.62% of its funding cost into fixed rates in 3Q23. There is no near-term refinancing need till 4Q24e and it is left with £125mn due afterwards. We expect borrowing costs to peak in FY24e and be partially offset by CPI-tied rental escalation. We expected the all-in interest cost in FY24e to be 4.8%. Net asset valuation as of 3Q23 was £5.1 cents.

### Risks

**Currency risk:** ELITE generates income in GBP and thus distributions are declared in GBP. Unitholders may elect to receive their entire distribution in Singapore dollars or GBP and spot rate will be the conversion rate for those who chose to receive in SGD. Thus, ELITE is exposed to the currency conversion risk.

**Concentration risk:** The portfolio Weighted Average Lease Expiry (WALE) is 4.5 years and 94.3% of the current lease will expire in FY28. More than 91% of the income is generated from DWP. Given the muted office market and the work-from-home norm in UK, revenue is susceptible to the renewal decision of DWP and the ability to secure suitable replacements.

**Income risk:** We saw 11 out of the 150 properties experiencing rental deduction due to increasing shadow space. Three of them reduced by 45% and the rest decreased by 30%, summing up to less than 2% of the total revenue.

**End-year valuation:** Valuation as of 22Dec was £466.2mn and the gearing now is at 45.4%. Based on our sensitivity analysis, the gearing would be c.47.6% if the valuation falls 5% at the end of Dec23, and it is very likely to breach 50% of the regulatory limit once the valuation declines more than 10%. We expect the decrease in valuation to mainly result by expansion of terminal cap rate which is tied to SONIA rates. SONIA rates were 3.42% at the end of FY22 and are expected to increase to c. 5.3% by the end of FY23. As such, we expect a 100bps expansion in GRI yield to 8.8% thus leading to a valuation decline of c.9.4% and gearing of 48.7%.

### Financial Analysis

#### 3Q23 result highlights

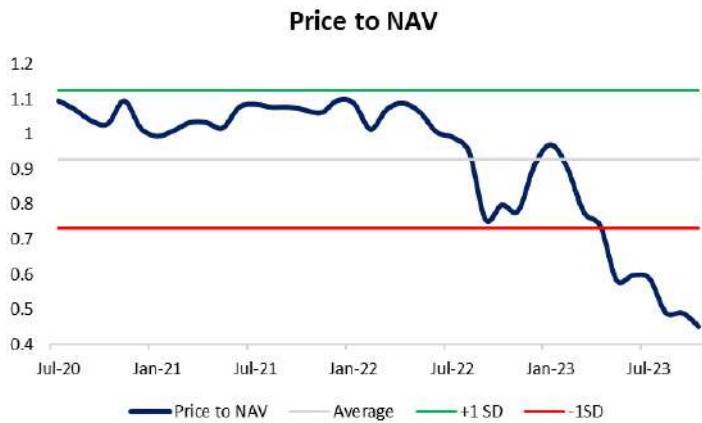
ELITE's 3Q23 revenue inched up 2% YoY to £28.5mn as the CPI-tied rental escalation kicked in but was buffeted by 8 vacant assets off-lined in Apr23. NPI was up by 20.4% thanks to the £11.4mn recycled gross proceeds including gross disposal proceeds and dilapidation settlement of the 9 vacant assets, paving the way for more divestments. Distribution to unitholders fell 25.1% YoY to £13.6mn and based on 90% payout ratio. DPU for 9M23 would be £2.53 cents.

Meanwhile, the portfolio occupancy decreased 5.8% YoY to 92.1% stoking worries of further deterioration of year-end valuation but ELITE shared that there was no more break clause to spark higher vacancy.

### Valuation

We initiate coverage on Elite Commercial REIT with a BUY recommendation and a price target of £0.36. Our valuation is based on DDM using a cost of equity of a 10.89% and 1% terminal growth rate. Elite is trading at 0.59x P/NAV which is below the average S-REIT of 0.86x P/NAV. At the current share price, ELITE is priced at 16.58% FY23e DPU yield.

Figure 6: Price to NAV trading at record lows



Source: Company, PSR

**APPENDIX 1: Elite Commercial REIT portfolio of assets**

Elite Commercial REIT's portfolio is composed of 150 commercial assets valued at around £466.2m as of 3Q23. These assets are strategically positioned across various locations in the UK, including town centers, city centers, and suburbs, all conveniently accessible via public transportation. Most of these assets are freehold, with five of them held on long leasehold tenures.

We visited 14 of their assets during the site visiting in London and Glasgow, both the front-office and back office of DWP.

**Collyer Court, Peckham**

The Property comprises a two-storey plus small basement, purpose-built, office building. It is of steel frame construction with cavity brick and block elevations. Internally, the Property provides open-plan office spaces. There are approximately 21 surface car parking spaces shared with the adjoining property, which the tenant also occupies. There is a connecting walkway with the adjoining property which we understand would be the tenant's responsibility to remove.

Peckham is a district of South London in the London Borough of Southwark and located approximately 3.5 miles south east of Central London. Peckham is bisected by the A202 which runs west to Victoria. The Property is located at the south end of the A202 which connects approximately 0.1 miles west of its junction with Rye Lane. Peckham Rye Station is located 0.4 miles south and provides London Overground, Southern, Southeastern and Thameslink rail services.

*Figure 7: Front and carpark*



Source: Company, PSR

*Figure 8: Job center – consultation counter*



Source: Company, PSR

**Peckham High Street**

The Property comprises a three-storey, purpose built, office building. It is of steel frame construction with cavity brick and block elevations. Internally, the Property provides open-plan office spaces. There are approximately 21 surface car parking spaces shared with the adjoining property, which the tenant also occupies. There is a connecting walkway with the adjoining property which we understand would be the tenant's responsibility to remove.

Peckham is a district of South London in the London Borough of Southwark and located approximately 3.5 miles south east of Central London. Peckham is bisected by the A202 which runs west to Victoria. The Property is located at the south end of the A202 which connects approximately 0.1 miles west of its junction with Rye Lane. Peckham Rye Station is located 0.4 miles south and provides London Overground, Southern, Southeastern and Thameslink rail services.

Figure 9: Collyer Court – Job Center



Source: Company, PSR

### **Crown House, Romford**

The Property comprises a three-storey, purpose-built, office building constructed in the 1960s. It is of concrete frame construction with concrete panel insert elevations. Internally, the Property provides open-plan office spaces. There are approximately 53 surface car parking spaces surrounding the Property.

Romford is a town in east London and the administrative centre of the London Borough of Havering, it is located approximately 14 miles north east of Central London. Romford is served by the A118 which provides direct access to Central London, via the A11, and to Junction 28 of the M25 London Orbital Motorway, 4 miles to the east. The Property is located on the south side of the A118, approximately 0.1 miles east of its junction with the A1251 and the town centre. Romford Train Station is located approximately 0.6 miles south west and is served by TfL Rail and National Rail services.

Figure 10: Crown House – Job center



Source: Company, PSR

Figure 11: Crown House – Carpark



Source: Company, PSR

### **High Road, Ilford**

The Property is a modern three-storey office building purpose built for DWP in 2006. The building is of cast situ concrete construction with elevations of composite panel cladding under a flat roof. The accommodation is centered around a central atrium providing increased light to the main floors. Internally, the building comprises a job centre on the ground floor and first floor with ancillary accommodation on the smaller second floor. There is very limited car parking space to the side of the Property.

The Property is located in the London Borough of Redbridge, Ilford, a large town in East London. It is 9 miles north east of Central London and 6 miles west of Romford. The Property is situated on the arterial High Road which lies on the eastern periphery of the town centre, 1.3 miles from



Iford Station, and a short walk from Seven Kings Station, offering regular services into Central London via London Overground and Elizabeth Line (Crossrail) services.

Figure 12: High Road – Job Center

Figure 13: AEI - Heater



Source: Company, PSR

Figure 14: Geographical Breakdown by Valuation as of Dec22



Source: Company, PSR

**Oates House, Stratford**

The Property comprises a purpose-built office building arranged over ground, basement and two upper floors. It is of steel frame construction with facing brick elevations, constructed in 1995. Internally, the Property provides open-plan office spaces. There are approximately 10 basement parking spaces to the rear of the property.

Stratford is a district in the East End of London approximately 6 miles northeast of Central London. The town is bisected by the A118 which provides access to Junction 28 of the M25 London Orbital Motorway, a major road encircling most of Greater London, and the M4 motorway at Junction 32. The Property has excellent connectivity and is accessible by underground and rail services. The Property is situated on the east side of Tramway Avenue close to its junction with the A118. Stratford Station is located 0.2 miles west and is served by London Underground Jubilee, Central, DLR, Overground and TFL Rail, National Rail services and Crossrail (Elizabeth Line).

Figure 15: Oates House – Job Center

Figure 16: Government sectors in JC



Source: Company, PSR

**Great Western House, Birkenhead**

The Property comprises a five-storey, purpose-built, office building. It is of concrete frame construction with concrete cladding. Internally, the Property provides open plan office spaces. There are approximately 194 surface car parking spaces surrounding the Property.

Birkenhead is a town in the Metropolitan Borough of Wirral located on the south side of the River Mersey opposite the city of Liverpool. Birkenhead is served by the A554, A552 and A41 that provides access to junctions 1, 3 and 5 to the north, west and south respectively. The

property is located on the east side of Chester Street at its junction with the A554. Hamilton Square stations are located 0.1 miles west providing Merseyrail services.

Figure 17: Great Western House – Job Center.

Figure 18: New IT department



Source: Company

Figure 19: Great Western House – Job Center

Figure 20: Carpark



**Peel Park, Blackpool**

The Property comprises two detached three-storey high specification office buildings developed in 1993 and 1997, together with a large vacant site suitable for development. The large undeveloped area of land let separately to the tenant has separate road access, which is to the east of the site.

Blackpool is located on the coast of north west England, approximately 19 miles south of Lancaster and 17 miles north west of Preston. The town is accessible via the M55 and is an established UK holiday and leisure destination. The Property is situated within the Blackpool Fylde Industrial Estate, adjacent to the junction of the A5230 and M55. Neighboring land uses include a mix of industrial occupiers, a B&Q, Booker Cash & Carry and a Tesco Extra superstore

Figure 21: Peel Park – Job Center

Figure 22: Peel Park – Job Center



Source: Company, PSR

Source: Company, PSR

Figure 23: Meeting Room



Figure 24: Common area



Source: Company

**Tomlinson House, Blackpool Norcross Lane**

The current tenant is Ministry of Defence. The property comprises a four-storey, purpose-built office building. It is of steel frame construction with cavity masonry and curtain wall cladding. Internally, the Property provides open-plan office spaces. There are approximately 256 surface car parking spaces surrounding the Property.

Thornton Cleveleys is a conurbation within north Blackpool, located approximately 48 miles north west of Manchester city centre. Thornton Cleveleys is located along the A585 which provides access to Junction 3 of the M55 Motorway, 8 miles south east. The Property is located on the north side of Norcross Lane approximately 0.3 miles west of its junction with the A585. There are no train or tram stations nearby to the Property.

Figure 25: Tomlinson House - Ministry of Defence Figure 26: Snacking area



Source: Company

Source: Company

**Duchy House, Preston**

The Property comprises a multi-storey office building within an island site complex of four buildings. The Property is inter-linked with the neighboring Palatine House. The accommodation is generally a mix of open plan and cellular offices. There is substantial car parking in the central courtyard of the four properties.

The Property is located in Preston, in the north west of England. Preston is located approximately 33 miles north west of Manchester and approximately 36 miles north east of Liverpool. The city is well connected, with the M6, M55, and M65 Motorways, and the West Coast mainline all nearby. The Property is located on an island site situated on the north-eastern side of the city centre and is accessed via Lancaster Road, off the A59. Surrounding properties include St John's shopping centre, the bus interchange, Law Court buildings, and other offices.

Figure 27: Duchy House – Job Center



Source: Company

Figure 28: Meeting Room



Source: Company

### **Whitburn Road, Bathgate**

The three-storey office building is organized across basement, ground, and first-floor levels, featuring a concrete frame construction with flat roof structures covered in mineralized felt. Its exteriors showcase a blend of facing brickwork, factory-coated metal, and exposed aggregate cladding, complemented by uPVC-coated double-glazed windows. Additionally, the property offers ample external parking space with 38 marked parking spots.

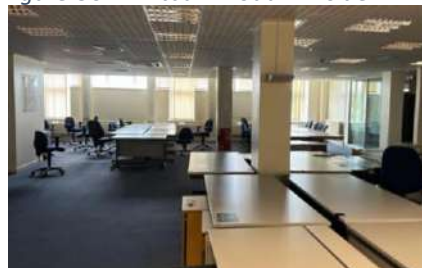
The property is situated in the town of Bathgate, approximately 25 miles east of Glasgow and 20 miles west of Edinburgh, offering convenient access to the M8 motorway for connections to both cities and the wider UK motorway network. Additionally, it's just a 10-minute walk from Bathgate train station. The property's proximity to Bathgate Retail Park, home to prominent businesses like B&M Bargains, Lidl, Argos, Iceland, Home Bargains, and McDonald's, enhances its convenience. The surrounding area features a diverse mix of retail, leisure, and office premises, making it a dynamic and well-connected location.

Figure 29: Whitburn Road - Outside



Source: Company

Figure 30: Whitburn Road – Inside



Source: Company

### **Parklands, Falkirk**

The purpose-built government office building spans three storeys, organized across ground, first, and second floors. It takes the form of an L-shaped detached structure and offers predominantly open-plan office spaces, supplemented by training rooms, staff kitchen facilities, and WCs, with showers available on all floors. Access to the property is facilitated through the front elevation, while the rear elevation ensures wheelchair accessibility. Furthermore, the property boasts extensive parking options, with approximately 326 parking spaces available in the front, side, and rear areas of the building.

Falkirk, one of Scotland's largest towns, is centrally located in the heart of Central Scotland. The property is positioned approximately 0.5 miles (0.8 km) to the southeast of central Falkirk, on the eastern side of the expansive Callendar Park, which covers over 170 acres of historical estate grounds. This property is a part of Callendar Business Park, a development dating back to the 1990s, encompassing over 300,000 sq ft of office space. It benefits from excellent connectivity,

with easy access to Junctions 4 and 5 of the M9 motorway. Notable occupants within the business park include CALA, CSA, the Scottish Government's Planning Department, and Link Group. The surrounding land use in the northeast predominantly comprises commercial and residential areas.

*Figure 31: Parklands – Job center*



Source: Company

*Figure 32: Parklands – Job center*



Source: Company

**Heron House, Falkirk**

The property is a three-storey detached office building, featuring a ground floor and two upper floors, designed with an 'L' shaped floor plan. Its construction is steel-framed, with a flat roof covered in mineral felt or asphalt. The exterior areas comprise a bitumen macadam surface, a fully enclosed car park, and perimeter footpaths, offering approximately 15 vehicle parking spaces and two lock-up garages.

The property is situated in Falkirk, a prominent town in Scotland's Central Belt. Falkirk is positioned approximately 23.5 miles northeast of Glasgow and 26.5 miles west of Edinburgh, making it a strategically located town. The property itself is centrally located within Falkirk, just a short distance to the northwest of the primary retail district centered on the High Street. For transportation, the nearest train station, Falkirk Grahamston, is conveniently located within a 10-minute walk from the property.

*Figure 33: Heron House – Job center*



Source: Company

*Figure 34: Carpark*



**Financials**
**Income Statement**

Y/E Dec, (£'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	20.96	34.73	37.08	37.38	40.93
Property Expense	(0.59)	(1.00)	(1.33)	0.16	(2.87)
<b>Net Property Income</b>	20.38	33.73	35.74	37.54	38.06
Interest Cost	(2.35)	(4.85)	(7.42)	(11.83)	(10.33)
<b>Total return before before tax</b>	29.10	(3.37)	(16.84)	23.52	23.21
Tax Expense	(5.74)	(1.37)	(1.50)	(0.04)	(0.03)
<b>Net income after Tax</b>	23.36	(4.74)	(18.33)	23.49	23.18
Amount available to unitholders	14.85	32.87	36.46	26.59	26.48
<b>Distribution to unitholders</b>	16.46	24.53	23.10	23.93	26.48

**Per unit data**

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
NAV (\$\$)	0.65	0.61	0.52	0.52	0.52
DPU (£ cents)	4.88	5.43	4.81	4.97	5.50

**Cash Flow**

Y/E Dec, (£'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Total return for the period before</b>	29.10	(3.37)	(16.84)	23.52	23.21
Adjustments	<b>(11.85)</b>	<b>35.24</b>	<b>48.80</b>	<b>14.84</b>	<b>13.54</b>
WC changes	0.06	(6.26)	(1.68)	(3.48)	1.29
Tax paid and interest received	(2.57)	(2.92)	(2.42)	(0.04)	(0.03)
<b>Cash generated from ops</b>	16.46	22.69	27.86	34.84	38.01
<b>CFI</b>	-	-	(7.44)	-	-
CAPEX	-	-	(7.44)	-	-
<b>Cashflow from investments</b>	-	(9.40)	(7.44)	-	-
<b>CFF</b>	(3.45)	(3.57)	(5.28)	(11.83)	(10.33)
Distributions to unitholders	(16.31)	(17.59)	(22.79)	(23.93)	(26.48)
<b>Cashflow from financing</b>	(15.63)	(14.10)	(33.15)	(35.76)	(36.81)
<b>Net change in cash</b>	<b>0.83</b>	<b>(0.81)</b>	<b>(12.73)</b>	<b>(0.92)</b>	<b>1.20</b>
Cash at the start of the period	18.14	18.98	18.17	7.44	6.53
<b>Ending cash</b>	<b>18.98</b>	<b>18.17</b>	<b>7.44</b>	<b>6.53</b>	<b>7.73</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

**Balance Sheet**

Y/E Dec, (£'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
Cash and short term deposit	20.15	19.48	7.44	6.53	7.73
Trade Receivables	0.88	12.03	11.87	14.55	14.18
<b>Total current assets</b>	<b>21.03</b>	<b>31.51</b>	<b>26.75</b>	<b>31.77</b>	<b>32.60</b>
Investment properties	311.86	501.35	459.98	456.71	456.71
<b>Total non-current assets</b>	<b>311.86</b>	<b>501.86</b>	<b>460.04</b>	<b>458.73</b>	<b>458.73</b>
<b>Total Assets</b>	<b>332.89</b>	<b>533.36</b>	<b>486.80</b>	<b>490.50</b>	<b>491.33</b>
<b>LIABILITIES</b>					
Trade payables	2.54	5.63	4.82	5.74	5.32
Loans and borrowings	-	6.60	7.20	3.20	3.20
Others	5.36	9.83	10.41	10.28	10.28
<b>Total current liabilities</b>	<b>7.91</b>	<b>22.06</b>	<b>22.43</b>	<b>19.22</b>	<b>18.80</b>
Loans and borrowings	101.91	217.25	213.07	219.34	219.34
Deferred tax liabilities	5.92	3.80	2.17	2.17	2.17
<b>Total non-current liabilities</b>	<b>107.83</b>	<b>222.29</b>	<b>216.47</b>	<b>222.73</b>	<b>222.73</b>
<b>Total Liabilities</b>	<b>115.73</b>	<b>244.35</b>	<b>238.89</b>	<b>241.95</b>	<b>241.53</b>
<b>Net assets</b>	<b>217.16</b>	<b>289.02</b>	<b>247.90</b>	<b>248.56</b>	<b>249.80</b>
<b>Represented by:</b>					
Unitholders' funds	217.16	289.02	247.90	248.56	249.80

**Valuation Ratios**

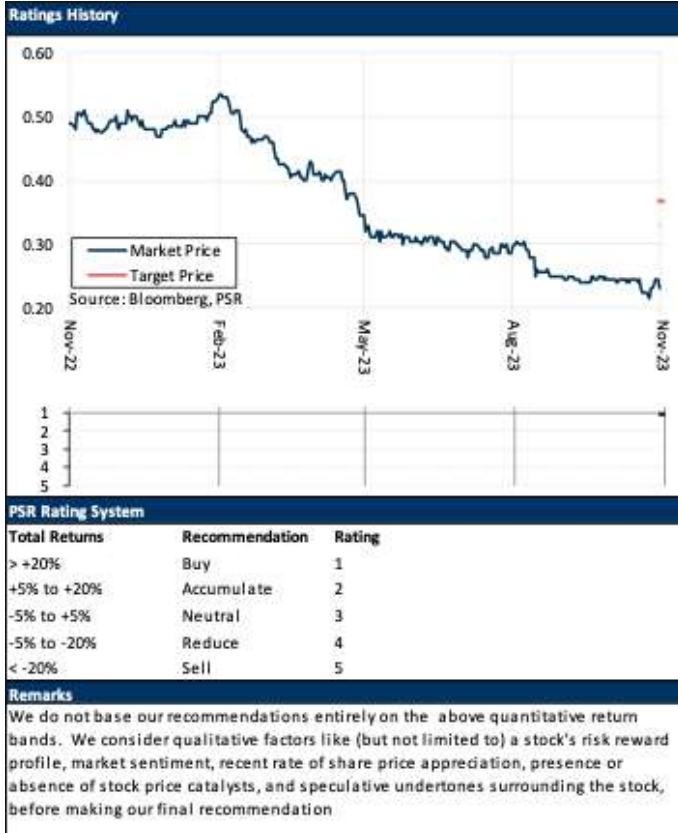
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	1.01	1.10	0.93	0.58	0.58
Distribution Yield (%)	7.45	8.17	10.02	16.58	18.35

**Growth & Margins**

<b>Growth</b>					
Revenue		65.68%	6.75%	0.83%	9.49%
Distributable income		48.99%	-5.83%	3.61%	10.67%
DPU		11.27%	-11.42%	3.40%	10.67%

**Key Ratios**

Net Debt or (Net Cash)	(231)	(310)	(267)	(268)	(269)
Gearing	0.31	0.42	0.45	0.45	0.45



<b>Head of Research</b> Paul Chew – <a href="mailto:paulchewkl@phillip.com.sg">paulchewkl@phillip.com.sg</a>	<b>Contact Information (Singapore Research Team)</b>	<b>Research Admin</b> Qystina Azli - <a href="mailto:gystina@phillip.com.sg">gystina@phillip.com.sg</a>
<b>Technical Analyst</b> Zane Aw – <a href="mailto:zanaewyx@phillip.com.sg">zanaewyx@phillip.com.sg</a>	<b>Property   REITs</b> Darren Chan – <a href="mailto:darrenchanrx@phillip.com.sg">darrenchanrx@phillip.com.sg</a>	<b>Banking &amp; Finance</b> Glenn Thum – <a href="mailto:glennthumjc@phillip.com.sg">glennthumjc@phillip.com.sg</a>
<b>Credit Analyst</b> Shawn Sng – <a href="mailto:shawnsngkh@phillip.com.sg">shawnsngkh@phillip.com.sg</a>	<b>Property   REITs</b> Liu Miaomiao – <a href="mailto:liumm@phillip.com.sg">liumm@phillip.com.sg</a>	<b>Conglomerate   Transport</b> Peggy Mak – <a href="mailto:peggymak@phillip.com.sg">peggymak@phillip.com.sg</a>
<b>US Tech Analyst (Software/Services)</b> Ambrish Shah – <a href="mailto:amshah@phillipventuresifsc.in">amshah@phillipventuresifsc.in</a>	<b>US Tech Analyst (Digital Media &amp; Entertainment)</b> Jonathan Woo – <a href="mailto:jonathanwookj@phillip.com.sg">jonathanwookj@phillip.com.sg</a>	

**Contact Information (Regional Member Companies)**

**SINGAPORE**  
**Phillip Securities Pte Ltd**  
 Raffles City Tower  
 250, North Bridge Road #06-00  
 Singapore 179101  
 Tel +65 6533 6001  
 Fax +65 6535 6631  
 Website: [www.poems.com.sg](http://www.poems.com.sg)

**JAPAN**  
**Phillip Securities Japan, Ltd.**  
 4-2 Nihonbashi Kabuto-cho Chuo-ku,  
 Tokyo 103-0026  
 Tel +81-3 3666 2101  
 Fax +81-3 3666 6090  
 Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**  
**Phillip Securities (Thailand) Public Co. Ltd**  
 15th Floor, Vorawat Building,  
 849 Silom Road, Silom, Bangrak,  
 Bangkok 10500 Thailand  
 Tel +66-2 6351700 / 22680999  
 Fax +66-2 22680921  
 Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**  
**Phillip Capital Inc**  
 141 W Jackson Blvd Ste 3050  
 The Chicago Board of Trade Building  
 Chicago, IL 60604 USA  
 Tel +1-312 356 9000  
 Fax +1-312 356 9005  
 Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA**  
**PhillipCapital (India) Private Limited**  
 No.1, 18th Floor, Urmi Estate  
 95, Ganpatrao Kadam Marg  
 Lower Parel West, Mumbai 400-013  
 Maharashtra, India  
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
 Website: [www.phillipcapiatal.in](http://www.phillipcapiatal.in)

**MALAYSIA**  
**Phillip Capital Management Sdn Bhd**  
 B-3-6 Block B Level 3 Megan Avenue II,  
 No. 12, Jalan Yap Kwan Seng, 50450  
 Kuala Lumpur  
 Tel +603 2162 8841  
 Fax +603 2166 5099  
 Website: [www.poems.com.my](http://www.poems.com.my)

**INDONESIA**  
**PT Phillip Securities Indonesia**  
 ANZ Tower Level 23B,  
 Jl Jend Sudirman Kav 33A  
 Jakarta 10220 – Indonesia  
 Tel +62-21 5790 0800  
 Fax +62-21 5790 0809  
 Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**  
**King & Shaxson Capital Limited**  
 3rd Floor, 35 Rue de la Bienfaisance 75008  
 Paris France  
 Tel +33-1 45633100  
 Fax +33-1 45636017  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**  
**Phillip Capital Limited**  
 Level 10, 330 Collins Street  
 Melbourne, Victoria 3000, Australia  
 Tel +61-03 8633 9803  
 Fax +61-03 8633 9899  
 Website: [www.phillipcapiatal.com.au](http://www.phillipcapiatal.com.au)

**TURKEY**  
**PhillipCapital Menkul Degerler**  
 Dr. Cemil Bengü Cad. Hak Is Merkezi  
 No. 2 Kat. 6A Caglayan  
 34403 Istanbul, Turkey  
 Tel: 0212 296 84 84  
 Fax: 0212 233 69 29  
 Website: [www.phillipcapiatal.com.tr](http://www.phillipcapiatal.com.tr)

**HONG KONG**  
**Phillip Securities (HK) Ltd**  
 11/F United Centre 95 Queensway  
 Hong Kong  
 Tel +852 2277 6600  
 Fax +852 2868 5307  
 Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**  
**Phillip Financial Advisory (Shanghai) Co Ltd**  
 No 550 Yan An East Road,  
 Ocean Tower Unit 2318,  
 Postal code 200001  
 Tel +86-21 5169 9200  
 Fax +86-21 6351 2940  
 Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**  
**King & Shaxson Capital Limited**  
 6th Floor, Candlewick House,  
 120 Cannon Street,  
 London, EC4N 6AS  
 Tel +44-20 7426 5950  
 Fax +44-20 7626 1757  
 Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**CAMBODIA**  
**Phillip Bank Plc**  
 Ground Floor of B-Office Centre, #61-64,  
 Norodom Blvd Corner Street 306, Sangkat  
 Boeung Keng Kang 1, Khan Chamkamorn,  
 Phnom Penh, Cambodia  
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
 Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**DUBAI**  
**Phillip Futures DMCC**  
 Member of the Dubai Gold and  
 Commodities Exchange (DGCX)  
 Unit No 601, Plot No 58, White Crown Bldg,  
 Sheikh Zayed Road, P.O.Box 212291  
 Dubai-UAE  
 Tel: +971-4-3325052 / Fax: +971-4-3328895



**Important Information**

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

**IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES**

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.

