



# Elite Commercial REIT

## £28m Preferential Offering to lower gearing

### Singapore | REIT | UPDATE

20 December 2023

- ELITE is set to raise gross proceeds of approximately £28mn at 0.27 pence for each Preferential Offering Unit, which represents a 10% discount to the volume-weighted average price (VWAP) of 0.30 pence per unit.
- The theoretical ex-rights price, calculated based on the current market price, stands at 0.286 pence. We recommend subscribing if the share price remains above 0.286 pence.
- We reiterate our BUY recommendation with an unchanged DDM-TP of 0.36 pence. Despite possible dilution in the near term. The strengthened financial position, achieved through reduced gearing, will provide a buffer against macroeconomic uncertainty.

### Fully underwritten and non-renounceable preferal offering

ELITE intends to issue 103,354,690 new units on the basis of the 214 Preferential Offering Units for every 1,000 existing units, in order to raise gross proceeds of c.£28.0mn. c.£27.0 million (96.4% of the gross proceeds) will be allocated towards debt repayment, aiming to decrease the overall leverage by 6.1% to 43.5%. £1.0mn (c.3.6% of the gross proceeds) to pay for the fees and expenses. Sunway RE Capital Pte. Ltd intends to subscribe for any Excess Undertaking Units left after the Pro Rata Units, maximum of c.£16.1mn to 14.9% unitholding (+ 9.1%).

### The Positives

**+ Fully underwritten and non-renounceable.** Maximum of £24.7mn (88.6% of the total proceeds) will be subscribed by sponsors and substantial unitholders of ELITE and the remaining balance will receive full underwriting from the Singapore branch of CGS-CIMB Securities and RHB Bank.

**+ Increase in pro forma distributable income on the back of interest savings from debt reduction.** Of the proceeds, 96.4% will be allocated to repay debt, aiming to reduce the aggregate leverage to 43.5%. This strategy will result in a pro forma interest expense savings of £1.1mn. Consequently, the distributable income for the nine months ending in Sep23 is projected to increase from £13.6mn to £14.7mn.

### The Negative

**- NAV dilutive.** Upon completion of the preferential offering, the share base is projected to increase by 21.4% to 586,320,534 Units. Consequently, the NAV per share is anticipated to decrease to 0.4 pence (compared to 0.43 pence in Dec23).

**- DPU dilutive.** The pro forma distribution is anticipated to rise to £14.7mn due to potential interest savings. However, the DPU is projected to drop 11.3% to 2.5 pence from 2.82 pence as the share base expands.

### Maintain BUY with an unchanged TP of £0.36

ELITE is currently trading at FY24e yields of 13.2% and 0.73x P/NAV. We have incorporated the effects of these transactions into our calculations and continue to maintain our forecasts. Potential re-development plan such as student accommodation or data center may take place given the enlarged debt headroom of c.£58mn. Our DDM-TP remains unchanged at 0.36 pence, with projected FY24-25e DPUs of 4.16 – 4.72 pence.

### BUY (Maintained)

LAST CLOSE PRICE	GBP 0.29
FORECAST DIV	GBP 0.04
TARGET PRICE	GBP 0.36
TOTAL RETURN	38.9%

### COMPANY DATA

BLOOMBERG CODE:	ELITESP Equity
O/S SHARES (MN) :	483
MARKET CAP (USD mn / GBP mn) :	177 / 140
52 - WK HI/LO (GBP) :	0.54 / 0.21
3M Average Daily T/O (mn) :	0.17

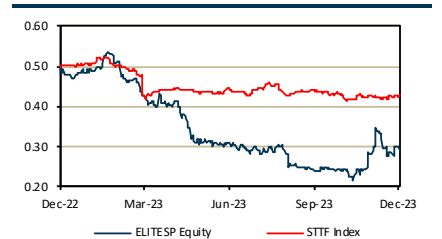
### MAJOR SHAREHOLDERS

Partner 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	25.0	(29.2)
STTF RETURN	(0.5)	(4.0)	0.2

### PRICE VS. STTF



### KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev (£mn)	34.7	37.1	37.4	40.9
Dist. Inc. (£mn)	24.5	23.1	23.9	26.5
P/NAV (x)	1.10	0.93	0.73	0.73
DPU (pence)	5.43	4.81	4.16	4.72
Dist. Yield (%)	8.17	10.02	14.07	13.20

Source: Company, PSR

### VALUATION METHOD

DDM (Cost of Equity:11.3%; Terminal g: 1%)

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## Financial

### 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)	(11.33)	(9.11)
<b>Total return before before tax</b>	29.10	(3.37)	(16.84)	24.02	24.43
Tax Expense	(5.74)	(1.37)	(1.50)	(0.04)	(0.03)
<b>Net income after Tax</b>	23.36	(4.74)	(18.33)	23.98	23.18
Amount available to unitholders	14.85	32.87	36.46	27.08	27.69
<b>Distribution to unitholders</b>	16.46	24.53	23.10	24.37	26.48

### Per unit data

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
NAV (£)	0.65	0.61	0.52	0.39	0.40
DPU (£ pence)	4.88	5.43	4.81	4.16	4.72

### 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>14.34</b>	<b>12.33</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)	(0.04)
<b>Cash generated from ops</b>	16.46	22.69	27.86	34.35	36.79
<b>CFI</b>	-	-	(7.44)	-	-
CAPEX	-	-	(7.44)	-	-
<b>Cashflow from investments</b>	-	(9.40)	(7.44)	-	-
<b>CFF</b>	-	-	-	-	-
Interest Payment	(3.45)	(3.57)	(5.28)	(11.33)	(9.11)
Distributions to unitholders	(16.31)	(17.59)	(22.79)	(23.93)	(26.48)
<b>Cashflow from financing</b>	(15.63)	(14.10)	(33.15)	(35.71)	(35.60)
<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	412.50	412.50
<b>Total non-current assets</b>	<b>311.86</b>	<b>501.86</b>	<b>460.04</b>	<b>414.52</b>	<b>414.52</b>
<b>Total Assets</b>	<b>332.89</b>	<b>533.36</b>	<b>486.80</b>	<b>446.29</b>	<b>447.12</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	192.34	192.34
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>195.73</b>	<b>195.73</b>
<b>Total Liabilities</b>	<b>115.73</b>	<b>244.35</b>	<b>238.89</b>	<b>214.95</b>	<b>214.53</b>
<b>Net assets</b>	<b>217.16</b>	<b>289.02</b>	<b>247.90</b>	<b>231.35</b>	<b>232.59</b>
<b>Represented by:</b>					
Unitholders' funds	217.16	289.02	247.90	231.35	232.59

### Valuation Ratios

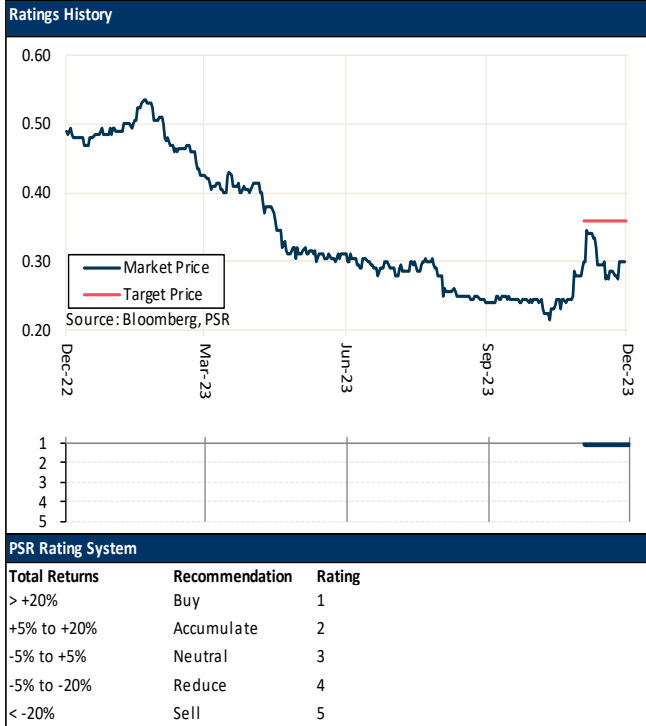
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	1.01	1.10	0.93	0.73	0.73
Distribution Yield (%)	7.45	8.17	10.02	14.07	13.20

### 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%	-13.58%	-7.88%

### Key Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
Net Debt or (Net Cash)	(231)	(310)	(267)	(251)	(252)
Gearing	0.31	0.42	0.45	0.44	0.44



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