



Elite Commerical REIT

Valuation upside from redevelopment

Singapore | REIT | UPDATE

6 May 2024

- Gross revenue for 1Q24 increased by 0.8% YoY to £9.2mn thanks to the rental escalation that kicked in Mar23, forming 24% of our FY24e estimates. NPI slid 3.7% YoY to £8.3mn, within our estimates. DPU decreased by 21.2% YoY to £0.67 pence on the back of the enlarged unit base post preferential offering, falling short of our expectations, assuming a 90% payout ratio.
- ELITE has expanded its investment mandate to include the Living Sector. Two vacant assets are on track to be redeveloped into student accommodation and a data center, which will unlock their value by uplifting rental and valuation by c.30-40%.
- We reiterate our BUY recommendation with a lower DDM-TP to £0.32 (prev. £0.34) and lower FY24e-25e DPU forecasts of £2.75 to £4.42 pence. Revenue to be disrupted by the vacant building and its increasing vacancy holding costs due to prolonged leasing period. Catalyst will come from redevelopment of the vacant assets. ELITE is currently trading at FY24e dividend yields of 12% and 0.67x P/NAV.

BUY (Maintained)

LAST CLOSE PRICE	GBP 0.24
FORECAST DIV	GBP 0.03
TARGET PRICE	GBP 0.32
TOTAL RETURN	44.9%

COMPANY DATA

BLOOMBERG CODE:	ELITESP Equity
O/S SHARES (MN):	587
MARKET CAP (USD mn / GBP mn):	177 / 141
52 - WK HI/LO (GBP):	0.36 / 0.2
3M Average Daily T/O (mn):	0.11

MAJOR SHAREHOLDERS

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

Result at a glance

(£ Mn)	1Q24	1Q23	YoY	Comments
Gross Revenue	9.25	9.17	0.9%	Rent escalations, offset by 8 assets vacated in Apr23
Net Property Income	8.34	8.65	-3.7%	
DPU (pence)	0.67	0.85	-21.2%	Enlarged unit base + increasing vacancy holding cost
Cost of debt	5.2%	5.2%	-	
Gearing	41.5%	47.5%	(12.6ppt)	£28mn Preferential Offering
Occupancy rate	92.3%	97.9%	(5.7ppt)	Due to vacant assets
NAV per share	0.39	0.50	-22.0%	Enlarged unit base + Divestment

Source: Company, PSR

The Positives

+ Expanded investment mandate. ELITE is expanding its investment mandate into the living sector, such as Student Housing, Senior Living, or data centers, to ride on influx of international students and AI demand respectively. Lindsay House is slated to be converted into a 40-200 bed student housing facility upon approval from authorities. Typical values are around £130k per bed with yields of 5.5%. The annual income for the building would soar by 280% to c.£1.4mn from £360k in FY22, and the valuation will double to £38mn upon successful redevelopment. With the power shortage in the UK, data centers will provide a growth engine for the booming AI demand. ELITE is actively working on securing sufficient power to meet tenants' requirements, and we expect the process to take roughly 1.5 years to complete construction.

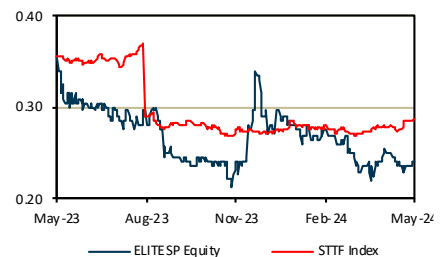
The Negative

- Further downtime for the vacant assets. In 1Q24, distributions were impacted by the increase in vacancy holding expenses such as manpower and electricity due to prolonged vacancy periods. There are 7 vacant assets remaining, 2 of which will be redeveloped, and the others will either be re-let or divested. Dilapidation settlements would partially offset the earnings shortfall, with 4 more buildings expected to be received by the end of FY24. NPI is expected to be on par with FY22 levels.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.0)	(8.1)	(9.7)
STTF RETURN	3.7	5.4	3.6

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (£mn)	37.1	37.6	38.8	40.6
Dist. Inc. (£mn)	23.1	14.7	17.6	25.9
P/NAV (x)	0.93	0.56	0.67	0.68
DPU (cents)	4.81	3.07	2.75	4.42
Dist. Yield (%)	10.02	12.79	11.46	18.44

Source: Company, PSR

VALUATION METHOD

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

LIU MIAOMIAO (+65 94673476)

Research Analyst

liumm@phillip.com.sg

Outlook

Given the counter-cyclical nature of ELITE, since DWP tends to expand during economic slowdowns as more people claim unemployment benefits and seek help for career consultation, ELITE is well-positioned to benefit from the downturn. Despite the possible valuation uplift through expanding its mandate, we believe the effect won't be salient in the short term given the long legal and construction duration and relatively small scale (2 assets VS c.150 assets in total).

Maintain BUY with an lower TP of £0.32 (prev. £0.34)

ELITE is currently trading at FY24e dividend yields of 12% and 0.67x P/NAV. We expect revenue to be disrupted by the 7 vacant assets and limited support from dilapidation settlements. As government support tends to lag during economic downturns, we don't expect any major expansion in footprint from DWP in the short term. Our DDM-TP is lowered to £0.32 (prev. £0.34) due to higher-than-expected vacancy holding costs, with projected FY24-25e DPUs of £3.76 to £4.42 pence.

Financials

Income Statement

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	34.73	37.08	37.64	38.80	40.64
Property Expense	(1.00)	(1.33)	(3.84)	(0.56)	(2.40)
Net Property Income	33.73	35.74	33.80	38.24	38.24
Interest Cost	(4.85)	(7.42)	(12.36)	(11.77)	(10.23)
Total return before before tax	(3.37)	(16.84)	(21.38)	22.15	23.47
Tax Expense	(1.37)	(1.50)	(0.79)	(0.90)	(0.90)
Net income after Tax	(4.74)	(18.33)	(22.17)	21.25	22.57
Amount available to unitholders	32.87	36.46	28.90	24.43	25.91
Distribution to unitholders	24.53	23.10	14.69	17.60	25.91

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	2.75	4.42

Cash Flow

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Total return for the period before	(3.37)	(16.84)	(21.38)	22.15	23.47
Adjustments	35.24	48.80	59.75	14.86	13.47
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)
Cash generated from ops	22.69	27.86	44.55	26.50	35.74
CFI					
CAPEX	-	(7.44)	(3.67)	-	-
Cashflow from investments	(9.40)	(7.44)	(0.46)	-	-
CFF					
Interest Payment	(3.57)	(5.28)	(11.18)	(11.77)	(10.23)
Distributions to unitholders	(17.59)	(22.79)	(18.49)	(17.60)	(25.91)
Cashflow from financing	(14.10)	(33.15)	(33.92)	(29.37)	(36.14)
Net change in cash	(0.81)	(12.73)	10.17	(2.87)	(0.39)
Cash at the start of the period	18.98	18.17	5.44	15.61	12.74
Ending cash	18.17	5.44	15.61	12.74	12.34

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Cash and short term deposit	19.48	7.44	20.82	12.74	12.34
Trade Receivables	12.03	11.87	2.87	12.43	13.01
Total current assets	31.51	26.75	29.84	35.36	35.56
Investment properties	501.35	459.98	413.72	413.72	413.72
Total non-current assets	501.86	460.04	414.20	414.20	414.20
Total Assets	533.36	486.80	444.04	449.56	449.76
LIABILITIES					
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
Total current liabilities	22.06	22.43	141.56	141.84	142.08
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
Total non-current liabilities	222.29	216.47	95.25	95.25	95.25
Total Liabilities	244.35	238.89	236.80	237.09	237.32
Net assets	289.02	247.90	207.24	212.48	212.43
Represented by:					
Unitholders' funds	289.02	247.90	207.24	208.18	208.13

Valuation Ratios

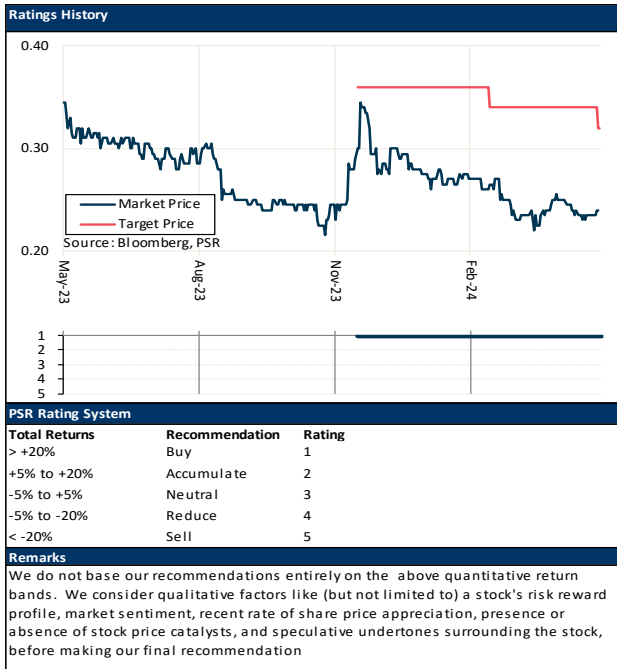
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.10	0.93	0.56	0.67	0.68
Distribution Yield (%)	8.17	10.02	12.79	11.46	18.44

Growth & Margins

Growth					
Revenue		6.75%	1.52%	3.10%	4.74%
Distributable income		-5.83%	-36.41%	19.84%	47.20%
DPU		-11.42%	-36.17%	-10.42%	60.91%

Key Ratios

ROE	-	-	-	2.50%	2.66%
Gearing	0.42	0.45	0.41	0.41	0.41



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - gystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawwx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Digital Entertainment/Semicon)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Tech Analyst (Hardware/E-commerce)

Helena Wang – helenaawang@phillip.com.sg

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 6631Website: 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 6090Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921Website: 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 9005Website: 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

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 5099Website: 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 0809Website: 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 45636017Website: 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 9899Website: www.phillipcapiatal.com.au

TURKEY

PhillipCapital Menkul Degerler

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 1000
Fax: 0212 233 69 29Website: 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 5307Websites: 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 2940Website: 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 1757Website: 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 0769Website: 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

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