

SAC IPO Alert

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Elite Commercial REIT

Elite Commercial REIT is the first UK-focused Singapore REIT with over 99.0% of the IPO portfolio leased to the UK government. Elite Commercial REIT's initial portfolio comprises 97 quality commercial buildings across the United Kingdom, primarily occupied by the Department for Work and Pensions ("**DWP**"), the UK's largest public service department that is responsible for welfare, pensions and child maintenance for approximately 20 million claimants. With an appraised value of £319.1 million and at 100% occupancy as at 31 August 2019, the initial portfolio has over 99.0% of gross rental income derived from triple net leases with inflation-linked uplifts, and with a weighted average lease expiry ("**WALE**") of 8.6 years.

Details of Offer

Offering of 114,686,200 units (subject to the Over-Allotment Option)

- International placement: 108,981,900 units to investors outside the United States of America
- Public Offer: 5,734,300 units

Offering Price: £0.68

Singapore public offer subscription price: S\$1.21 (Based on the exchange rate of £1 to S\$1.7794)

Distribution yield for Forecast year 2020: 7.1% (Based on the exchange rate assumption of £1 to S\$1.76 for forecast year 2020)

Summary

Elite Commercial REIT is the first United Kingdom (“UK”) - focused Singapore REIT with over 99.0% of the IPO portfolio leased to the UK government. Elite Commercial REIT’s initial portfolio comprises 97 quality commercial buildings across the United Kingdom, primarily occupied by the Department for Work and Pensions (“DWP”), the UK’s largest public service department that is responsible for welfare, pensions and child maintenance for approximately 20 million claimants. With an appraised value of £319.1 million and at 100% occupancy as at 31 August 2019, the initial portfolio has over 99.0% of gross rental income derived from triple net leases with inflation-linked uplifts, and with a weighted average lease expiry (“WALE”) of 8.6 years.

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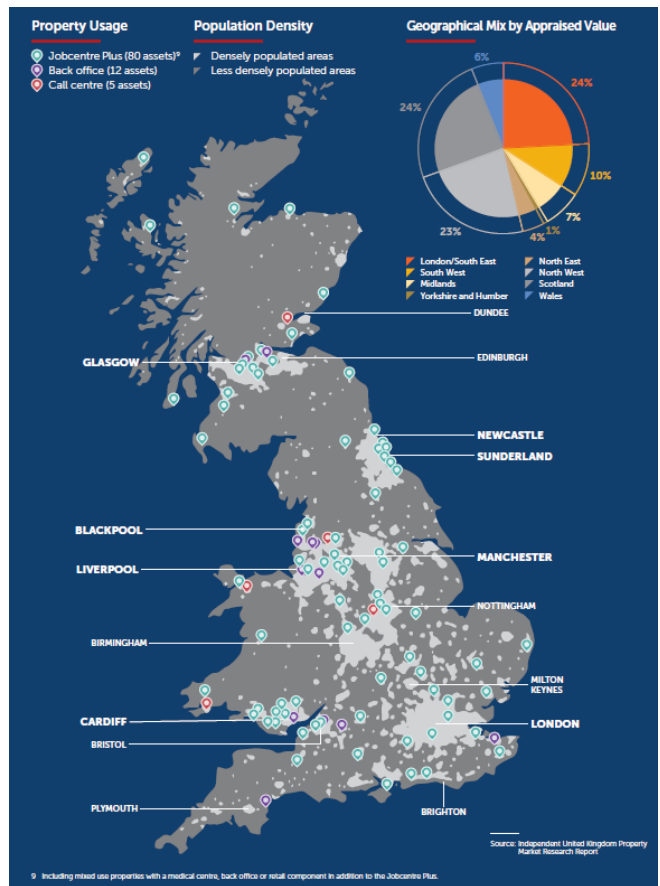
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Overview

Elite Commercial REIT is a Singapore REIT established with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the UK. The manager is Elite Commercial REIT Management Pte. Ltd.

The initial portfolio will comprise 97 commercial buildings located across the UK, with a total net internal area of approximately 2.6 million square feet and a total site area of approximately 47 hectares. The IPO portfolio is predominantly freehold. Of the 97 Properties, 96 Properties are freehold Properties and one Property is on a long leasehold tenure expiring on 19 May 2255. The initial portfolio has an aggregate indicative appraised value of approximately GBP 319.1 million as at 31 August 2019. Over 99.0% of the gross rental income is derived from the current leases with the UK Government via The Secretary of State for Housing, Communities and Local Government (with the DWP) occupying each Property under a group sharing arrangement.



Source: Company data

Elite Commercial REIT’s properties are geographically diversified across the UK. The assets are also well-located, primarily in town centres close to public transport nodes. This is because DWP mandates that Jobcentre Plus centres should be easily accessible to the general population via public transport.

74.2% of the IPO portfolio is centrally located in city centres, town centres and city suburbs, and all of them are within a 10 minute walk to the nearest bus stop, while 59.8% are within a 15 minute walk to the nearest train station.

Region	Number of Properties	Gross Rental Income for Forecast Year 2020 (£ Million)	% of Gross Rental Income for Forecast Year 2020
London and South East	16	4.7	20.3
South West	9	2.5	10.5
Midlands	9	1.6	6.8
Yorkshire and Humber	4	0.3	1.2
North East	9	1.2	5.2
North West	16	5.3	22.9
Scotland	20	5.9	25.4
Wales	14	1.8	7.7
Total	97	23.3	100.0

Source: Company data, SAC Capital

Financial Highlights

Forecast and Projected Consolidated Statements of Comprehensive Income and Distribution (Summarised)

Year Ended 31 December (£'000)	2020F ¹	2021P ²
Total Revenue	23,274	23,274
Net Property Income	22,654	22,654
Profit before tax	14,641	16,818
Profit after tax	11,870	14,002
Distributable Income	16,121	16,417
Distribution/unit (pence)	4.83	4.88
Distribution yield	7.1%	7.2%

¹Forecast Year: Full year from 1 January 2020 to 31 December 2020

²Projection Year: 1 January 2020 to 31 December 2020

Unaudited Pro Forma Statements of Cash Flows³

Year Ended 31 December 2018 (£'000)	Period from 7 June 2018 to Dec 2018	Eight months ended 31 Aug 2019
Net cash generated/(used in) from operating activities	(292)	13,997
Net cash (used in)/generated from investing activities	(286,469)	4
Net cash generated from/(used in) financing activities	295,878	(6,171)
Net increase in cash and cash equivalents	9,117	7,830
Cash and cash equivalents at end of the year	9,117	16,947

Unaudited Pro Forma Statements of Financial Position⁴

As at (£'000)	31 Dec 2018	31 Aug 2019
Non-current assets – Investment properties	289,463	295,968
Total assets	299,582	307,046
Non-current liabilities	102,851	104,050
Total liabilities	107,389	110,845
Net Asset (Unitholders' funds)	182,721	303,779

³The Unaudited Pro Forma Consolidated Statements of Cash Flows as at 31 December 2018 and 31 August 2019 have been prepared assuming issuance of 192,514,100 Units at the offering price of £0.68.

⁴The Unaudited Pro Forma Consolidated Statements of Financial Position as at 31 December 2018 and 31 August 2019 have been prepared assuming issuance of 192,514,100 Units at the offering price of £0.68.

The Management

The REIT management team assembled and managed the IPO portfolio and has an average of 15 years of relevant experience across UK real estate investment and management, corporate finance, financial management and REITs.

Name	Age	Position
Shaldine Wang	47	Chief Executive Officer
Cheah Zhuo Yue	35	Chief Financial Officer
Jonathan Edmunds	43	Chief Investment Officer
Leng Tong Yan	35	Senior Manager Investor Relations

Source: Company data, SAC Capital

The Sponsors

Elite Commercial REIT have three (3) Sponsors, namely Elite Partners Holdings Pte. Ltd., Ho Lee Group Pte. Ltd. and Sunway RE Capital. Assuming the over-allotment option is exercised in full, Ho Lee Group Pte. Ltd. and Sunway RE Capital Pte. Ltd. will both have 10.8% and 8.2% shareholdings respectively. The sponsors have each provided a right of first refusal over all future UK commercial acquisitions. In particular, a right of first refusal has been granted by Elite UK Commercial Fund II, a private trust managed by Elite Partners Capital Pte. Ltd. (a wholly owned subsidiary of Elite Partners Holdings Pte. Ltd.) with over 62 commercial properties located in the UK, which are primarily long-term leased to the UK government.

They are backed by a team with proven expertise in private equity and REITS, and its threefold investment philosophy aims to protect investors' initial capital, enhance investment value and create new growth opportunities.

Ho Lee Group Pte. Ltd. has extensive experience across the real estate value chain, from general building construction to industrial and residential development. Ho Lee Group was also one of the major sponsors of Viva Industrial Trust during its initial public offering and listing on the SGX-ST in November 2013.

Sunway is a wholly-owned subsidiary of Sunway Berhad. Sunway Berhad is one of Malaysia's largest conglomerates with businesses in property development, property investment and REIT, construction, healthcare, hospitality, leisure, quarry, building materials, and trading and manufacturing. The Sunway Berhad Group comprises three public listed entities, Sunway Berhad, Sunway Construction Group Berhad, and Sunway REIT, with a combined market capitalisation of RM17.0 billion as at 30 September 2019.

Distribution policy

Elite Commercial REIT's distribution policy is to distribute 100% of Elite Commercial REIT's annual distributable income for the period from the listing date to the end of projection year 2021. Thereafter, Elite Commercial REIT will distribute at least 90.0% of its annual distributable income for each financial year. The actual level of distribution will be determined at the Manager's discretion and may be greater than 90.0% of its annual distributable income for each financial year. It will make distributions on a semi-annual basis.

 Elite Partners Holdings Pte. Ltd.	 Ho Lee Group Pte. Ltd.	 Sunway RE Capital Pte. Ltd.
<ul style="list-style-type: none"> ✦ Investment holding firm for Elite Partners Group ✦ Established to deliver lasting value for investors based on common interests, long-term perspectives and a disciplined approach ✦ Backed by a team with proven expertise in private equity and REITs 	<ul style="list-style-type: none"> ✦ Extensive experience across the real estate value chain, from general building construction to industrial and residential development ✦ One of the major sponsors of Viva Industrial Trust during its IPO in November 2013 	<ul style="list-style-type: none"> ✦ Wholly-owned subsidiary of Sunway Berhad – one of Malaysia's largest conglomerates with businesses in property development, property investment and REIT, construction, healthcare, hospitality, leisure, quarry, building materials, and trading and manufacturing

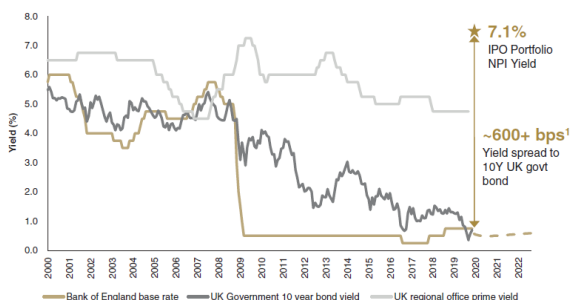
Source: Company data

According to the Prospectus, Elite Partners Holdings Pte. Ltd. is the investment holding firm for Elite Partners Group, established to deliver lasting value for investors based on common interests, long-term perspectives and a disciplined approach.

Key Investment Highlights⁵

1) First UK-focused Singapore REIT with over 99.0% leased to the UK government, providing attractive and recession-proof yields.

- The IPO portfolio provides an attractive risk-adjusted return compared against the UK government 10-year bonds. It provides a net property income yield of 7.1% based on Forecast year 2020), representing an attractive yield spread to UK government 10-year bonds of approximately 600+bps, despite being backed by the same sovereign credit.
- The stable cash flow backed by UK sovereign credit as 99.0% of the IPO portfolio's gross rental income is derived from full repairing and insuring (triple net) leases to the UK government with a WALE of approximately 8.6 years. The UK government is rated AA and Aa2 by S&P and Moody's respectively, and has experienced steadily declining budget deficits over the last five years, with one of the lowest debt-to-GDP ratios amongst the G7.



Source: Company data

2) IPO Portfolio is crucial public infrastructure for the provision of DWP services. DWP is the UK government's largest public service department.

- The assets in the IPO portfolio are primarily occupied by the DWP, which is the UK government's largest public service department, responsible for crucial welfare, pensions and child maintenance services. The DWP utilises the assets in the IPO portfolio primarily as public-facing job centres for the provision of such services.
- The DWP administers a range of pension, working age, disability and ill health benefits for approximately 20 million claimants. It is a ministerial department that employs approximately 77,000 full-time equivalent staff and is supported by 14 agencies and public bodies.

Key Investment Highlights

2) IPO Portfolio is crucial public infrastructure for the provision of DWP services.

- In the financial year ended 31 March 2019, the total benefit spend of the DWP was £182.5 billion, representing an average of £9,126 spent per DWP claimant, equivalent to approximately 30.9% of the median UK wage.
- DWP is a uniquely counter-cyclical occupier. The Manager believes that the IPO Portfolio provides stable, recession-proof and Brexitproof cash flows for the following reasons. The IPO Portfolio is underpinned by a uniquely counter-cyclical occupier, which is the DWP. By design, the usage of DWP's job centres (and therefore its need for the IPO portfolio) is inherently counter-cyclical, with claimant counts, job centre footfall and DWP benefit spending all highly correlated to unemployment. For instance, during the Global Financial Crisis, the number of claimants increased by approximately 74.3%.
- The UK Government signed new 10-year leases on the IPO Portfolio in 2018, after the DWP had conducted an extensive review of its entire estate across the UK. A key focus of the review was in ensuring that the UK population continues to have easy access to Jobcentre Plus centres. With 86.3% of Jobcentre Plus assets in the IPO Portfolio having no alternative Jobcentre Plus within a three-mile radius (a key metric for the DWP), the Manager believes the assets will continue to be relevant to DWP in the long-term. In addition, the UK's ageing population is driving long-term structural demand growth for DWP's pension services.

3) Well-located assets, primarily in town centres close to public transport nodes. The portfolio is made up of freehold office buildings.

- The DWP has stringent locational requirements for its public-facing centres, and as a result they typically have the following key attributes, which the Manager believes increases the long-term attractiveness of the IPO Portfolio not just for use by DWP, but also as space for other commercial, residential or student accommodation uses.

Key Risks⁶

Adversely affected by sovereign and real estate market conditions in the UK.

- Elite Commercial REIT is dependent on the UK government for rental payments; and
- May be adversely affected by economic and real estate market conditions (including uncertainties and instability in global market conditions and increased competition in the real estate market), as well as changes in regulatory, fiscal and other governmental policies in the UK.

Intended Use of Proceeds

Source	Amount (£'000)
Offering	77,987
Cornerstone units	52,923
Total	130,910
Application	Amount (£'000)
Partial repayment of existing facility agreements/loans	101,940
Redemption of a number of the private trust units	18,915
Transaction costs	8,305
Working capital	1,750
Total	130,910

Source: Company data

Comparables

Office/ Commercial	Mkt Cap (US\$)	Price /NAV (times)	FY20F yield (%)
CapitaLand Commercial Trust	5,895	1.14	4.3
Suntec REIT	3,821	0.87	5.2
Keppel REIT	3,067	0.92	4.5
OUE Commercial REIT	2,117	0.88	5.9
Frasers Commercial Trust	1,109	1.02	5.8
Average		0.97	5.3

Source: SAC Capital

⁶Selected Risk factors from the Prospectus

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Party	Quantum of position
Nil	Nil

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Analyst name	Quantum of position
Nil	Nil

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- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
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