

Rating Action: Moody's changes rating outlook for Soilbuild REIT to negative; affirms Baa3 ratings

Global Credit Research - 03 Aug 2016

Singapore, August 03, 2016 -- Moody's Investors Service has changed the rating outlook for Soilbuild Business Space REIT (Soilbuild REIT) to negative from stable. Moody's has also affirmed Soilbuild REIT's Baa3 issuer rating.

At the same time, Moody's has affirmed the provisional (P)Baa3 rating on the senior unsecured notes component of the SGD500 million multi-currency Debt Issuance Program established by DBS Trustee Limited, in its capacity as trustee of Soilbuild REIT, as well as the Baa3 rating on the SGD100 million senior unsecured notes issued under the program.

RATINGS RATIONALE

"The change in outlook to negative reflects our expectations that Soilbuild REIT's credit profile will weaken in 2017 following the lack of clarity on its leasing strategy for 72 Loyang Way, its partially debt-funded acquisition of Bukit Batok Connection and the pressure on occupancy rates in this challenging operating environment," says Rachel Chua, a Moody's Analyst.

Moody's expects Soilbuild REIT's post-transaction leverage -- as measured by adjusted debt to deposited assets -- will weaken to 39% in 2016-17 from 36.8% in 2015 which is close to the downgrade trigger level of 40%. Its EBITDA interest cover will also fall towards 3x over the next two years.

In June 2016, Soilbuild REIT said it received SGD11.8 million of security deposits in cash from its sole tenant at 72 Loyang Way -- Technics Offshore Engineering Pte. Ltd (unrated) -- which had been in rental arrears since early this year.

As the security deposits will be exhausted in Q3 2017, Moody's believes the trust's earnings will come under pressure thereafter. Given the soft operating environment and the specific configurations of the integrated office/production/jetty facilities, Moody's does not expect the trust will be able to fully lease out the square footage at 72 Loyang Way.

Soilbuild REIT has also announced that it plans to acquire Bukit Batok Connection for a total purchase consideration of SGD100.49 million. It plans to fund the transaction with a balanced mix of unsecured debt and equity.

Against the backdrop of slowing economic growth in Singapore, Moody's believes the negative outlook also reflects Soilbuild REIT's exposure to weakening industrial space demand and the potential for a further decline in occupancy rate.

At 30 June 2016, the trust's overall portfolio occupancy weakened to 92% from 96.8% in 2015.

Soilbuild REIT's Baa3 issuer and senior unsecured ratings continue to be underpinned by (1) its portfolio of good quality and well-situated industrial assets in Singapore, with a diversified tenant base; (2) stable and recurring rental income, supported by a good balance of long-term master-leased assets and multi-tenanted properties; and (3) prudent capital management in maintaining a long-dated debt maturity profile with no material near-term maturity until 2018.

At the same time, Soilbuild REIT's rating is constrained by its small operating scale, limited financial flexibility due to asset encumbrance levels, concentration of assets in Singapore and inherent exposure to liquidity risks that all Singapore REITs (S-REITs) face, given their high dividend payout ratios and minimal cash balances.

The rating also reflects Soilbuild REIT's moderate exposure to its sponsor, Soilbuild Group (unrated), which contributes around 24.2% of the REIT's rental income. With the expiry of the master lease at Solaris, we expect this concentration risk to reduce substantially by August 2018.

Given the negative outlook, upgrade pressure is unlikely.

However, the outlook could return to stable if Soilbuild REIT successfully leases out substantially all the square footage at 72 Loyang Way, funds the proposed asset acquisition with an equal mix of unsecured debt and equity, as well as arrests the decline in its portfolio occupancy such that it maintains stable operating cash flows over the next 12 months.

Downward pressure on the ratings could emerge if: (1) Soilbuild REIT does not find replacement tenant(s) at its 72 Loyang Way assets or provide clarity on its leasing plan at the asset; (2) funds the acquisition with more debt than equity; (3) the operating environment deteriorates, resulting in higher vacancy levels and lower operating cash flows; or (4) Soilbuild REIT's financial metrics deteriorate, such that its adjusted debt-to-deposited assets ratio exceeds 40%, adjusted EBITDA/interest coverage falls below 3x or secured debt/deposited assets exceeds 15%-20% on a sustained basis.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Soilbuild Business Space REIT (Soilbuild REIT) is a Singapore-based industrial real estate investment trust listed on the Singapore Stock Exchange since August 2013. It has a portfolio of 11 properties in Singapore, comprising two business parks and nine industrial assets. As of 31 December 2015, its property portfolio of 3.5 million square feet in net lettable area (NLA) had a total appraised value of SGD1.2 billion.

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