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CREDIT OPINION
8 June 2017

Update

Rate this Research

RATINGS

Viva Industrial Real Estate Investment Trust

Domicile	Singapore
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Viva Industrial Real Estate Investment Trust

Update to Q1 2017 Results

Summary Rating Rationale

Viva Industrial Real Estate Investment Trust's (VI-REIT) Ba1 corporate family rating (CFR) reflects its: (1) balanced portfolio, with a mix of multi-tenanted and master-leased assets; (2) income diversification from its end tenant base, with a manageable lease expiry profile; and (3) continued improvement in cash flow generation, as its portfolio occupancy ramps up.

The trust has a well-laddered debt maturity profile, with no near-term refinancing risk until September 2018 which also supports the rating.

At the same time, VI-REIT's CFR is constrained by its small scale, concentration risk at its two business park assets, lower occupancy rates given the ongoing works at two key assets, moderate exposure to its partner - United Engineers Developments Pte. Ltd. (UED, unrated) and acquisition risk from its portfolio growth strategy.

The rating also reflects its moderate leverage profile, with a high reliance on secured financing, as well as the inherent exposure to liquidity risks that all Singapore REITs face, given their high dividend payout ratios and minimal cash balances.

Rating Outlook

The stable outlook reflects our expectation that the trust will generate stable cash flows from its portfolio, and exercise financial discipline in funding future acquisitions, such that it maintains its credit profile within rating parameters.

Factors that Could Lead to an Upgrade

Upgrade rating pressure is unlikely to emerge before the ongoing asset enhancement and infrastructure works at its assets are completed.

Nonetheless, VI-REIT's rating could be upgraded if the trust's financial profile improves through: 1) achieving its expected improvement in occupancy and rental rates at its two business parks after 2018; 2) successfully managing its lease expiry risk through early forward renewals; 3) improving its access to capital, including reducing its reliance on secured financing; and 4) demonstrating a longer track record of financial prudence.

Specific indicators that we would consider include: adjusted debt/deposited assets below 40%, net debt/EBITDA below 6x-6.5x and EBITDA/interest cover exceeding 3.5x. We would also expect secured debt/deposited assets to stay below 15% and unencumbered assets to account for more than 60% of its total investment property valuation on a sustained basis.

Factors that Could Lead to a Downgrade

VI-REIT's rating could be pressured downwards if: 1) the operating environment deteriorates, leading to a failure in meeting the trust's expected improvements in occupancy and rental rates, such that its operating cash flows are lower than projected; or 2) the trust engages in overseas acquisitions, particularly in markets where it has no operating track record which will increase its overall risk profile.

Specific indicators we would consider include: adjusted debt/deposited assets approaching 45%, EBITDA/interest cover below 3x or net debt/EBITDA exceeding 7.5x.

Key Indicators

Exhibit 1

	3/31/2017 (LTM)	12/31/2016	12/31/2015	12/31/2014
Total Deposited Assets (SGD Millions)	1306	1229	1172	858
EBITDA (SGD Millions)	77	74	58	48
Debt/Total Deposited Assets	40%	38%	39%	45%
Net Debt/EBITDA	6.5x	5.9x	7.0x	7.9x
EBITDA/Fixed Charges	4.4x	4.3x	4.3x	4.9x
Secured Debt/Total Deposited Assets	32%	30%	31%	34%
Unencumbered Assets/Total IP valuation	16%	14%	10%	14%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics; Moody's Investors Service

Credit Strengths

» Income diversification from end-tenant industries

» Balanced portfolio mix of multi-tenanted and master-leased assets

» Weaker operating profile, but will improve in 2017-2018

Credit Challenges

» Asset concentration risk from UE BizHub East and Viva Business Park

» Moderate exposure to UED

» Moderate leverage profile, with high reliance on secured financing

Corporate Profile

Viva Industrial Real Estate Investment Trust (VI-REIT) is a Singapore-focused business park and industrial real estate investment trust. VI-REIT is stapled with Viva Industrial Business Trust (VI-BT, unrated) to form Viva Industrial Trust (VIT, unrated), which was listed on the Singapore Stock Exchange in November 2013.

VI-REIT's portfolio consists of nine properties in Singapore, with a total appraised value of SGD1.3 billion as of 31 March 2017. VI-BT is currently dormant, and all investment properties of the stapled group are held by VI-REIT.

VI-REIT is managed by Viva Industrial Trust Management Pte. Ltd., which is indirectly owned by Maxi Capital Pte. Ltd. (unrated, 55.5%), Ho Lee Group Pte. Ltd. (unrated, 27.8%) and Kim Seng Holdings Pte. Ltd. (unrated, 16.7%).

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Detailed Rating Considerations

Small industrial REIT with asset concentration risk, partially mitigated by diverse tenant base

With a portfolio asset value of SGD1.3 billion at 31 March 2017, VI-REIT is one of the smallest S-REITs by asset size in our rated portfolio. The trust has a portfolio of nine assets in Singapore, comprising two business parks, three logistics properties and four light industrial properties.

The concentration risk from VI-REIT's two largest assets -- UE BizHub East and Viva Business Park -- is high, accounting for 67% of total portfolio value at 31 March 2017 and 69% of earnings (including rental support) in Q1 2017. The trust's largest asset -- UE BizHub East -- which comprises a business park and a hotel, accounted for 40% of portfolio valuation, while Viva Business Park accounted for 27%.

We believe the concentration risk will be partially mitigated by the rationalization of supply for business parks in Singapore from 2017. We expect rental rates within the business park segment to remain largely resilient, because there is no planned supply in the pipeline after 2016 which will ease supply-side pressures in the sector.

VI-REIT also benefits from a diverse tenant profile, with over 140 tenants across its nine assets. The trust has focused its tenant base on the information-communications (infocom) segment, which is a key sunrise industry in Singapore given the government's (Aaa stable) efforts in positioning the country as an IT business hub.

As of 31 March 2017, the trust's tenant concentration is modest. Nonetheless, we note that its largest tenant Sharikat Logistics Pte Ltd (unrated) -- the master tenant at 6 Chin Bee Avenue -- accounted for almost 8% of its monthly income. Overall, its top ten tenants (excluding UED as the master lessee of the hotel at UE BizHub East) accounted for around 44% of its monthly rental income and are well diversified across infocom, general engineering, warehousing, retail and lifestyle companies.

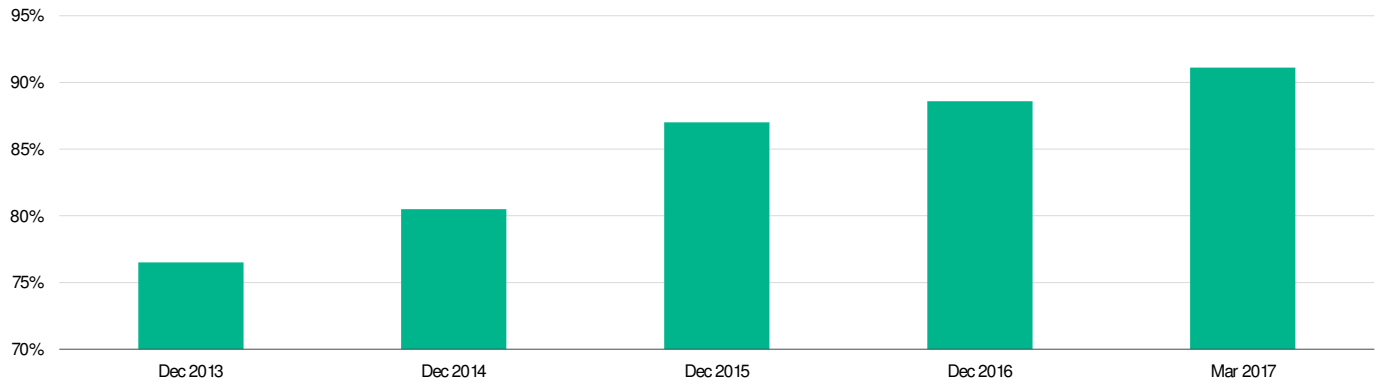
VI-REIT has a mandate to invest in industrial assets in Asia Pacific. It has the right of first refusal over five assets from shareholders of the REIT manager: three in South Korea and one in Singapore from Ho Lee Group and one in China from Shanghai Summit. Given its lack of operating track record overseas, we expect the trust to maintain a cautious attitude towards investments in new geographic markets. In our evaluation of the trust's future acquisitions, we will consider the geography, profile of the asset, acquisition structure and funding structure.

Weaker operating profile, but will improve in 2017-2018

VI-REIT's weaker operating profile has improved since its listing in 2013. Its portfolio occupancy was low at 70% during its IPO, but it has improved to 91% at 31 March 2017, following leasing activities at its existing business park assets. With this improvement, VI-REIT's occupancy -- which was below industry average over the past three years -- is now largely in line with the industry.

Exhibit 2

VI-REIT's Low Portfolio Occupancy Rate Has Improved Above 90% in 2017



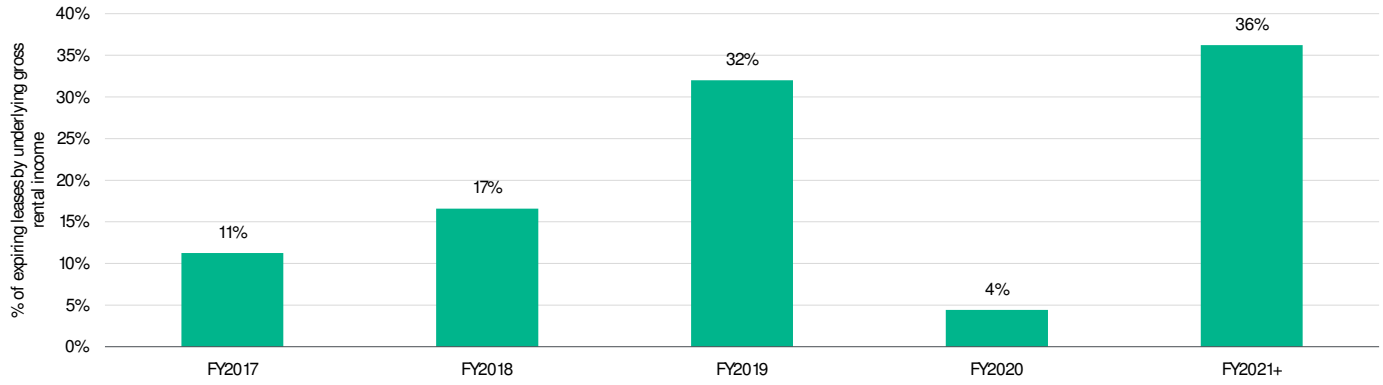
Source: Company data

On the back of organic growth and acquisitions, the trust's net property income (NPI) has increased. In the 12 months ended 31 March 2017, its NPI was SGD73.0 million against SGD54.2 million for the same period a year ago.

As of 31 March 2017, VI-REIT had a moderate weighted average lease expiry of 3.2 years, largely in line with the Singapore properties of its rated industrial peers. This provides good income visibility for the trust. We note that over 30% of the trust's leases (by underlying gross rental income) will come due in 2019. We expect the trust to proactively engage in forward lease renewals with existing tenants, or to bring in new tenants ahead of time, such that it manages this lease expiry risk.

Exhibit 3

VI-REIT has over 30% of leases coming due in 2019



Source: Company data

VI-REIT expects that its portfolio occupancy will improve in 2017 and 2018, following the completion of ongoing works at its two largest assets. While we believe these works will boost cash flow generation when completed, we will closely monitor the progress of the ongoing works, as well as the ramp up in occupancy/rental rates thereafter.

1) UE BizHub East (Business Park) - After the new Downtown Line MRT station is completed by October 2017, the trust expects the increased accessibility to two stations in the area will improve occupancy rate to over 90% from 2017.

2) Viva Business Park - There is a SGD81 million asset enhancement initiative (AEI) at the asset, which obtained TOP for the last phase in Q2 2017. The trust expects occupancy will improve to over 80% from 2017. Nonetheless, we believe the trust is exposed to lease expiry risk at this asset given that it had around 40% of leases expiring in 2017-2018 as of 31 March 2017.

Balanced portfolio, with a mix of multi-tenanted assets and master leases

VI-REIT has a balanced portfolio, with three multi-tenanted assets, six master-leased assets and the hotel component of UE BizHub East leased to a hotel operator.

The six master leases -- which collectively contribute around 20% of gross revenue -- provide cash flow visibility and stability, because they are long term in nature and will expire between 2019 and 2025. These lease agreements also include contracted rental escalations ranging from 1.5%-5% at stipulated intervals. To mitigate the risk of non-payment or early termination of these master leases, the master tenants are required to place a 7-24 month security deposit with VI-REIT in the form of cash or bank guarantee.

The UE BizHub East hotel lease expires in November 2018, and will be extended for another five years to 2023 subject only to regulatory approval from JTC Corporation, which the trust expects to successfully obtain.

UE BizHub East (Business Park) is a multi-tenanted asset with a rental support arrangement that provides downside protection until its occupancy and rental rates stabilize. While the guaranteed net rent at UE BizHub East (Business Park) is currently SGD27.3 million per annum, the trust has historically derived around SGD16-17 million from end tenants and relied on rental support of around SGD10-11 million per annum. We expect net rent from this asset will likely decline to SGD18-20 million per annum once the rental support arrangement expires in November 2018.

In April 2017, VI-REIT announced that the property manager at Jackson Square (JIPL), a multi-tenanted property, had filed for liquidation. Under the original agreement, VI-REIT was guaranteed an annual rental income of SGD11.6 million. It received SGD10 million of rental income from end-tenants and SGD1.6 million in rental support in 2016. We do not expect this to materially impact VI-

REIT's earnings in 2017 given that the SGD3.87 million of bank guarantee and additional SGD1 million in cash that it received as part of the settlement will sufficiently offset the loss in rental support and additional property operating expenses. VI-REIT will take over management of Jackson Square. In addition, subsidiaries of JIPL which accounted for 19% of the monthly rental income at that asset are not delinquent in rent payments and are continuing operations at the asset.

Moderate exposure to UED

The trust has a moderate exposure to UED through the rental support arrangement at UE BizHub East (Business Park) and the master lease at UE BizHub East (Hotel).

In 2016, VI-REIT received around 18% of its total earnings (including rental support) from UED, because it only drew upon SGD11 million of the SGD27.3 million guaranteed net rent at the business park. The exposure could increase if underlying rents decline at UE BizHub East (Business Park) but we view that as unlikely, given minimal lease expiries over the next two years.

Nonetheless, total guaranteed net rent from UE BizHub East (Business Park and Hotel) amounted to around 33% of VI-REIT's total earnings (including rental support) in 2016.

At 31 March 2017, UED held a 3.1% stake in the listed stapled group, but did not hold any ownership interest in the REIT manager, following the divestment of its 10% stake in May 2016.

Moderate leverage profile, with high reliance on secured financing

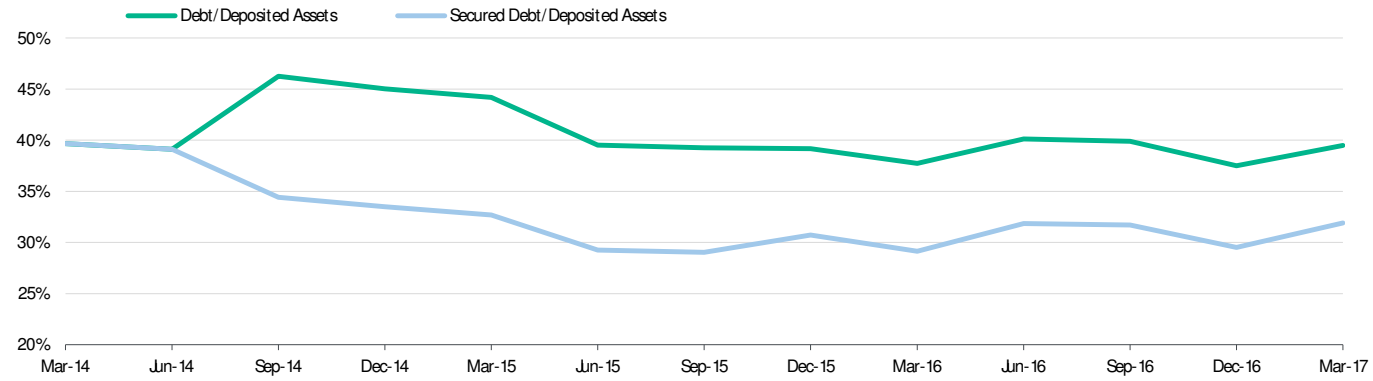
For the 12 months ended 31 March 2017, VI-REIT had a moderate financial profile, with debt/deposited assets of 39.5%, net debt/EBITDA of 6.5x and EBITDA/interest cover of 4.4x.

The trust's adjusted debt/deposited assets ratio increased above 45% in 2014 following debt-funded acquisitions, which demonstrated an aggressive funding strategy. It subsequently undertook an equity fund raising exercise in 2015 to reduce leverage.

Looking ahead, the trust expects to build a track record of financial prudence by maintaining its debt/deposited assets ratio below its stated financial policy of 40%. However, in the absence of an equity issuance, we expect leverage will likely increase to 40%-42% over the next 12-24 months.

Exhibit 4

VI-REIT's Debt/Deposited Assets Ratio Has Improved Since 2015



Source: Moody's Investors Service analysis

VI-REIT has demonstrated a mix of equity and debt in financing its asset purchases. In its latest acquisition completed in January 2017, it raised SGD43.5 million of net equity proceeds and issued SGD23 million of consideration units to the vendor to partially fund the SGD96.3 million asset acquisition. The remaining SGD29.8 million was funded by secured debt.

VI-REIT's financial flexibility is constrained by its high asset encumbrance levels. As of 31 March 2017, the trust's secured debt/deposited assets was 31.9% and 84% of the trust's assets were encumbered. Only three assets in its portfolio -- 6 Chin Bee Avenue, Jackson Square and Jackson Design Hub -- are unencumbered. Secured debt cover at 31 March 2017 was 2.6x while unsecured debt cover was 2.1x. We do not expect VI-REIT's reliance on secured debt to reduce over the next 12-18 months.

As such, the ratings on its senior unsecured MTN program and notes are positioned one notch below its Ba1 CFR as noteholders rank behind the trust's senior secured bank facilities.

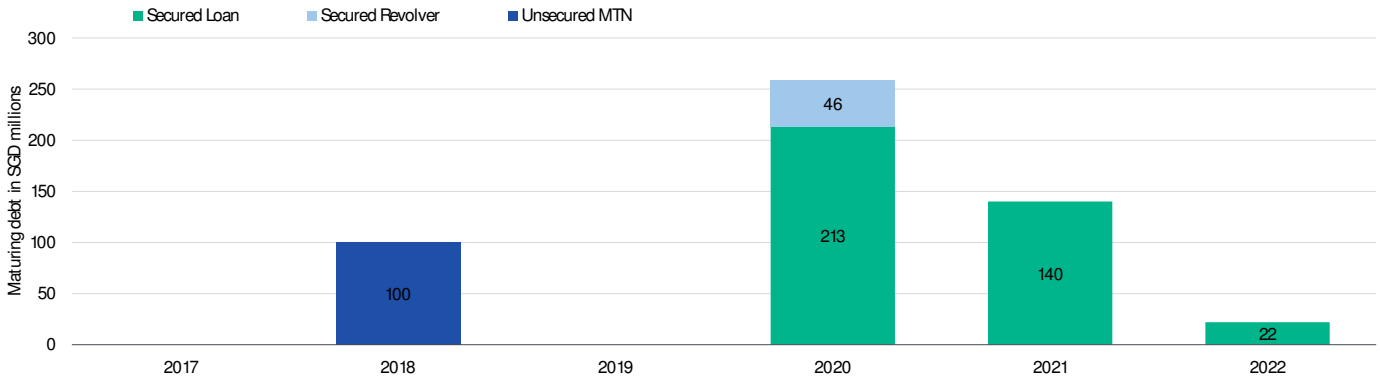
Liquidity Analysis

Given the high dividend payout characteristics of Singapore REITs, VI-REIT has to rely on refinancing and external funding for its expansion strategy. At 31 March 2017, the trust had cash and cash equivalents of SGD11 million and total debt of SGD516 million none of which was due over the next 12 months. It also had committed revolving credit facilities of SGD50 million from a syndicate of banks, including Standard Chartered Bank, BNP Paribas and United Overseas Bank Limited, of which SGD4 million is undrawn.

VI-REIT has a well-laddered debt maturity profile, with no near-term refinancing risk until September 2018 when its SGD100 million notes come due. The trust also has an all-in borrowing cost of 3.9%, and 80.6% of its debt is on fixed interest rates which reduces its exposure to rising interest rates.

Exhibit 5

VI-REIT Had No Near-Term Debt Maturity as of 31 March 2017



Note: Includes 2020 maturity of SGD50 million secured revolving credit facilities, of which SGD46 million was drawn down as of 31 March 2017
Source: Company data

Rating Methodology and Scorecard Factors

Exhibit 6

REITs and Other Commercial Property Firms Industry Grid [1][2]	Current LTM 12/31/2016		Moody's 12-18 Month Forward View As of 05/31/2017 [3]	
Factor 1: Liquidity and Funding (24.5%)	Measure	Score	Measure	Score
a) Liquidity Coverage	Ba	Ba	Ba	Ba
b) Debt Maturities	A	A	A	A
c) FFO Payout	100%	Ba	90% - 100%	Ba
d) Amount of Unencumbered Assets	14%	Caa	15% - 16%	Caa
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets	36.8%	Baa	40% - 42%	Baa
b) Net Debt / EBITDA	5.9x	Ba	6.2x - 6.6x	Ba
c) Secured Debt / Gross Assets	29%	B	32% - 34%	B
d) Access to Capital	B	B	B	B
Factor 3: Market Position and Asset Quality (22%)				
a) Franchise / Brand Name	B	B	B	B
b) Gross Assets(USD Million)	$845	B	$900 - $920	B
c) Diversity: Location / Tenant / Industry / Economic	B	B	B	B
d) Development Pipeline	5%	A	5%	A
e) Asset Quality	B	B	B	B
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin	78%	Aa	75% - 80%	Aa
b) EBITDA Margin Volatility	2%	Baa	2% - 3%	Baa
c) EBITDA / Fixed Charges	4.3x	Aa	3.8x - 4x	A
d) Joint Venture Exposure	0%	Aa	0%	Aa
Rating:				
a) Indicated Rating from Grid		Baa3		Ba1-Baa3
b) Actual Rating Assigned		Ba1		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations [2] As of 12/31/2016 [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics

Ratings

Exhibit 7

Category	Moody's Rating
VIVA INDUSTRIAL REAL ESTATE INVESTMENT TRUST	
Outlook	Stable
Corporate Family Rating	Ba1
VIVA ITRUST MTN PTE. LTD.	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Ba2

Source: Moody's Investors Service

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