MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Baa3 rating to Soilbuild Business Space REIT

Global Credit Research - 22 Mar 2016

Singapore, March 22, 2016 -- Moody's Investors Service has assigned a first-time issuer rating of Baa3 to Soilbuild Business Space REIT (Soilbuild REIT), a Singapore real estate investment trust.

The rating outlook is stable.

RATINGS RATIONALE

"Soilbuild REIT's Baa3 issuer rating is underpinned by (1) its portfolio of 11 good quality and well-situated industrial assets in Singapore; (2) income diversification from its exposure to business parks; and (3) stable and recurring rental income supported by a good balance of long-term master leases and multi-tenanted assets," says Rachel Chua, a Moody's Analyst.

At 31 December 2015, Soilbuild REIT had an asset portfolio with a total appraised value of SGD1.2 billion. It owns two business parks strategically located in one-north and Changi Business Park, and nine industrial properties situated in key industrial hubs across the island.

Its business park segment contributed 32% of gross rental income in 2015, while the industrial properties accounted for the remainder.

Soilbuild REIT's eight master-leased assets -- which collectively contribute around half of its gross rental income -- provide cash flow stability and visibility given the long-term nature of the leases. These lease agreements also include a contracted rental escalations averaging 2%-3% per annum.

"At the same time, the Baa3 rating is constrained by Soilbuild REIT's small operating scale, moderate exposure to its sponsor as well as geographical concentration of assets in Singapore," adds Chua, who is also Moody's lead analyst for Soilbuild REIT.

Moody's believes that while Soilbuild REIT derives around 21% of its gross revenue from Solaris business park which is master-leased to its sponsor -- Soilbuild Group Holdings Limited (unrated) --, the concentration risk is offset by the diversified profile of its 25 underlying tenants at the asset.

Soilbuild REIT also has limited financial flexibility due to its asset encumbrance levels. At 31 December 2015, it had two properties secured under its SGD100 million and SGD185 million term loan facilities, resulting in a secured debt-to-deposited assets ratio of 23.0%. Moody's expects the trust's secured leverage ratio will improve over the next two years as management is committed to fund future acquisitions and refinance debt on an unsecured basis.

Unsecured creditors are subordinated to the claims of these secured lenders and are therefore exposed to structural subordination risk in respect of these two properties.

"We believe that the subordination risk is largely mitigated because the unsecured creditors' claims on the nine unencumbered assets are not subordinated to the claim of the secured bank creditors. In our view, any recovery for the unsecured creditors from the nine unencumbered assets would sufficiently fulfill the debt obligations," says Chua.

Based on the latest valuation at 31 December 2015, the value of unencumbered assets exceeded 3x the amount of unsecured borrowings outstanding which provides significant buffer for fluctuations in asset value.

At 31 December 2015, Soilbuild REIT had adjusted debt/deposited assets of 36.8% and adjusted EBITDA interest coverage of 5.0x.

The trust also had cash and cash equivalents of SGD16.8 million and total gross debt of SGD438 million. It has no near-term refinancing risk, but faces a large maturity wall in 2018 with SGD252.5 million coming due.

We expect the trust will maintain its proactive approach towards capital management, such that it refinances its debt maturities ahead of time.

The rating outlook is stable, reflecting our expectation that Soilbuild REIT will continue to generate stable cash flows from its portfolio and maintain financial discipline when pursuing growth such that it keeps its credit profile within its rating parameters.

Near-term upward rating pressure is limited, because of the trust's small operating scale, short operating track record and dependence on secured debt funding.

Nonetheless, we will consider upgrading Soilbuild REIT's rating if it: (1) demonstrates a longer track record of operations and access to funding; (2) expands its asset size to SGD2.0-SGD2.5 billion through organic growth or prudently-funded acquisitions; (3) improves its credit profile such that its adjusted debt/ deposited assets falls below 35% and adjusted EBITDA/interest coverage rises above 4x; and (4) improves its financial flexibility by reducing its reliance on secured borrowings and increasing the proportion of unencumbered assets in its portfolio, such that its secured debt-to-deposited assets ratio stays below 15% on a sustained basis.

Downward pressure on the rating could emerge if: (1) the operating environment deteriorates, resulting in higher vacancy levels and lower operating cash flows; (2) Soilbuild REIT's financial metrics deteriorate, such that its adjusted debt-to-deposited assets ratio exceeds 40% or adjusted EBITDA/interest coverage falls below 3x on a sustained basis; or (3) Soilbuild REIT uses secured borrowings to refinance existing indebtedness or increases its secured debt levels, thereby continuing to constrain its financial flexibility.

We will also downgrade the rating if the trust's secured debt-to-deposited asset ratio does not decline as planned over the next 12-18 months.

The principal methodology used in this rating 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 million.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Rachel Chua
Analyst
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Laura Acres
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077