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Rating Action: Moody's assigns first-time Ba1 CFR to Viva Industrial Real Estate Investment Trust

Global Credit Research - 25 Nov 2016

Singapore, November 25, 2016 -- Moody's Investors Service has assigned a first-time Ba1 corporate family rating (CFR) to Viva Industrial Real Estate Investment Trust (VI-REIT).

At the same time, Moody's has assigned a provisional (P)Ba2 rating to the SGD500 million multi-currency medium term note (MTN) program established by Viva iTrust MTN Pte. Ltd, and a definitive Ba2 rating to the SGD100 million 4.15% senior unsecured 2018 notes drawn down under the program.

The program was established by VI-REIT through its wholly owned subsidiary -- Viva iTrust MTN Pte. Ltd. -- and is unconditionally and irrevocably guaranteed by Perpetual (Asia) Limited (previously known as The Trust Company (Asia) Limited), in its capacity as the trustee of VI-REIT.

The outlook on all ratings is stable.

RATINGS RATIONALE

"VI-REIT's Ba1 CFR is underpinned by 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," says Rachel Chua, a Moody's Analyst.

As of 30 September 2016, VI-REIT's portfolio of eight properties in Singapore had a total appraised value of SGD1.2 billion, comprising two business parks, two logistics properties and four light industrial properties.

As of 30 September 2016, the trust reported portfolio occupancy of 88.6% which has picked up and is now in line with the industry and had an average weighted average lease expiry of 3.3 years. VI-REIT expects that its portfolio occupancy will improve further in 2017 and 2018, following the completion of ongoing works at its two largest assets.

"However, VI-REIT's CFR is constrained by its small scale, concentration risk at its two business park assets which collectively account for over 70% of earnings, lower occupancy rates given the ongoing works at two key assets and acquisition risk from its portfolio growth strategy," adds Chua, who is also Moody's Lead Analyst for VI-REIT.

VI-REIT demonstrates a moderate exposure to its partner, United Engineers Developments Pte. Ltd. (UED, unrated) which provides guaranteed net rent of SGD27.3 million per annum at the business park at UE BizHub East. UED is also the master lessee of the hotel at UE BizHub East. In 2015, VI-REIT received 22% of its earnings from UED.

VI-REIT's rating also reflects the trust's moderate leverage profile as of 30 September 2016 (LTM), with adjusted debt/deposited assets of 40%, net debt/EBITDA of 6.7x and EBITDA/interest cover of 4.2x. Looking ahead, Moody's expects that VI-REIT's adjusted leverage will stay between 40% and 42% over the next 12-18 months.

On 26 October, VI-REIT announced that it will purchase a logistics/warehouse asset for SGD96.8 million. The trust has raised SGD43.5 million of net equity proceeds through a private placement exercise and will issue SGD23 million of consideration units to the vendor to partially fund the acquisition. We expect the remaining SGD30.3 million to be funded by secured debt which will keep VI-REIT's metrics largely unchanged on a pro-forma basis with net debt/EBITDA at 6.5x. The asset is fully leased for 7 years, with a fixed triple-net rent of SGD7.44 million per annum for the first two years.

VI-REIT has limited financial flexibility due to its high asset encumbrance levels. As of 30 September 2016, the trust's secured debt/deposited assets was at 31.7%. Therefore, VI-REIT's senior unsecured MTN program and notes are rated one notch below its Ba1 CFR, as noteholders rank behind the trust's senior secured bank

facilities.

The trust benefits from a relatively long-dated debt maturity profile, with no near-term refinancing risk until September 2018 when its SGD100 million notes come due.

The stable outlook reflects Moody's 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.

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 2017-2018; 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 Moody's would consider include: adjusted debt/deposited assets below 40%, net debt/EBITDA below 6x-6.5x and EBITDA/interest cover exceeding 3.5x. In addition, Moody's 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.

On the other hand, 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 that Moody's would consider include: adjusted debt/deposited assets approaching 45%, EBITDA/interest cover below 3x, or net debt/EBITDA exceeding 7.5x.

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 Rating Methodologies page on www.moodys.com for a copy of this methodology.

Viva Industrial Real Estate Investment Trust (VI-REIT) is a Singapore-focused business park and industrial real estate investment trust. The trust is stapled with Viva Industrial Business Trust (unrated) to form Viva Industrial Trust (unrated), which was listed on the Singapore Stock Exchange in November 2013. As of 30 September 2016, VI-REIT's portfolio consisted of eight properties in Singapore with a total appraised value of SGD1.2 billion.

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