



## **SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**

(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

### **RESPONSE TO BUSINESS TIMES ARTICLE**

The Board of Directors (the “**Board**”) and the management (the “**Management**”) of Sabana Real Estate Investment Management Pte Ltd (the “**Manager**”) refer to The Business Times (“**BT**”) article on 30 July 2020 regarding Quarz Capital Management’s views on the proposed merger (the “**Merger**”) of ESR-REIT and Sabana Shari’ah Compliant Industrial Real Estate Investment Trust (“**Sabana REIT**”) announced on 16 July 2020 (the “**Joint Announcement**”). All capitalised terms used herein but not otherwise defined shall have the meanings ascribed to them in the Joint Announcement.

The Board and the Management have reviewed and negotiated at length the terms of the Merger with the Board and manager of ESR-REIT (the “**ESR-REIT Manager**”) and have considered the terms of the Merger carefully, in accordance with an assessment process which includes the appointment of an independent financial adviser.

The Board and the Management believe that the Merger represents a credible offer and is an opportunity for unitholders of Sabana REIT (“**Sabana Unitholders**”) to participate in a Merger that would see unitholders effectively rolling over into a stronger, larger and more resilient Enlarged REIT. Hence, the Board and the Management are of the view that the Merger should be presented to Sabana Unitholders for their consideration.

The Manager would also like to set out the following clarifications and views:

- (1) **Merger of REITs, not an asset sale:** The transaction is not an outright disposal by Sabana REIT of its assets to ESR-REIT, but rather it is a merger of Sabana REIT and ESR-REIT by way of a trust scheme of arrangement (“**Scheme**”). As stated in the Joint Announcement, upon completion of the Scheme and the Merger, Sabana Unitholders will be entitled to receive new units in ESR-REIT (“**ESR-REIT Units**”) based on an agreed exchange ratio of 0.940 ESR-REIT Units for every one unit in Sabana REIT held by the Sabana Unitholders. The Merger will therefore provide Sabana Unitholders with the opportunity to stay invested in the Enlarged REIT, to continue to have exposure to both Sabana REIT and ESR-REIT assets, and to benefit from the enlarged scale and future growth opportunities that would be available to the Enlarged REIT.

It is important to note that the existing Sabana REIT portfolio has consistently traded at a discount to NAV in recent years – in the same BT article, DBS Group Research observed that Sabana REIT has traded with a five-year mean discount to NAV of 26.4%.

The Merger will enable Sabana Unitholders to benefit from an Enlarged REIT with an increased size, scale and strength, and an improved trading liquidity and investor interest. The agreed exchange ratio of 0.940 is at a 4.0% premium to the exchange ratio implied by

the volume weighted average price for the one month period up to 15 July 2020 (being last trading day before the date of the Joint Announcement on 16 July 2020)<sup>1</sup>.

While NAV may be a pertinent metric in an asset sale, the Manager is of the view that in the context of a 100% unit swap between two listed entities, it would be important to consider other factors such as the trading unit prices and the corresponding exchange ratio, pro forma DPU accretion, ability to leverage on the benefits of scale, enhancements to portfolio resilience and diversification, and other potential future upside arising from the transaction rationale of the Merger (which would not be available in an asset sale).

There are also several challenges involving asset sales, including searching for willing and approved buyers<sup>2</sup> that can acquire all of the assets of Sabana REIT on a portfolio basis at NAV, as opposed to only acquiring a few individual assets, and the relatively high transaction costs (including stamp duty) that an asset sale on a portfolio basis may incur.

It is also important to note that the pro forma DPU accretion for Sabana Unitholders (on a 1H 2020 annualised adjusted basis) of 12.9% is the highest in the history of S-REIT mergers.

(2) **Compelling transaction rationale:** As the Merger involves a 100% unit swap between Sabana REIT and ESR-REIT, and upon completion of the Merger, Sabana Unitholders will be able to stay invested in the Enlarged REIT, the Manager believes that it is important to reiterate the transaction rationale for the benefit of the Sabana Unitholders:

- (a) creation of a sizeable and liquid industrial real estate investment trust in Singapore<sup>3</sup>
  - (i) Enlarged REIT would be the 5<sup>th</sup> largest industrial S-REIT by total asset size;
  - (ii) Enlarged REIT to benefit from an increase in market value and free float (with potential inclusion into key indices, and which offers benefits of higher trading liquidity, a wider investor base, and broader research coverage, eventually leading to a potential re-rating of the Enlarged REIT);
  - (iii) expanded network of 75 properties improves positioning and bargaining power; and
  - (iv) enlarged asset base improves flexibility to undertake AElS and portfolio reconstitution.
  
- (b) enhanced portfolio diversification, strength, and resilience<sup>4</sup>
  - (i) enlarged portfolio enhances strength and resilience;
  - (ii) enlarged portfolio offers exposure to new business park asset class to increase portfolio resilience;

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<sup>1</sup> Computed based on the one-month volume weighted average price of Sabana REIT and ESR-REIT of S\$0.3597 and S\$0.3979 respectively as at 15 July 2020 (being the last trading day immediately prior to the date of the Joint Announcement on 16 July 2020).

<sup>2</sup> For Singapore industrial assets on JTC land, only certain approved third-party facility providers (“**TPFP**”) are allowed to acquire industrial properties for investment purposes. The allowable TPFP are trusts / investment funds that hold Trust Business Licence / Capital Markets Services Licence, such as REITs, issued by the Monetary Authority of Singapore, Developers and Industry Association / Consortium Sponsored Vehicles that are supported by economic agencies e.g. EDB and ESG. Please refer to the JTC website for additional details.

<sup>3</sup> Please refer to Paragraph 5(a) of the Joint Announcement.

<sup>4</sup> Please refer to Paragraph 5(b) of the Joint Announcement.

- (iii) diversified portfolio reduces tenant trade sector concentration risk; and
  - (iv) diversified portfolio reduces tenant and asset concentration risks.
- (c) improved growth outlook arising from the combination of the potential upsides of both ESR-REIT and Sabana-REIT<sup>5</sup>.
- (d) enhanced balance sheet flexibility and cost of capital<sup>6</sup>
- (i) enhanced balance sheet flexibility; and
  - (ii) more competitive cost of capital.
- (e) DPU accretive to Sabana Unitholders on a historical pro forma basis<sup>7</sup>.

Further details of the above transaction rationale are contained in the Joint Announcement and Announcement Presentation released on the SGXNET on 16 July 2020.

- (3) **Quarz Capital 2019 letter:** The 2019 letter referenced in the BT article was written on 14 November 2019, which is before the onset of the COVID-19 pandemic. The COVID-19 pandemic has had far-reaching impact on a global scale, with disruption to lifestyles, businesses, supply chains, travel and livelihoods. On 16 July 2020, it was reported that the Monetary Authority of Singapore (“**MAS**”) sees substantial uncertainty over the global economic outlook amidst the COVID-19 crisis. Earlier in June 2020, the MAS had forecasted that the Singapore GDP is expected to contract by 5.8% in 2020, which will result in Singapore’s worst recession since independence in 1965.

In light of the rationale set out above and in the Joint Announcement, the Manager believes that the Merger will allow Sabana Unitholders to participate in an Enlarged REIT that will be larger, stronger, more diversified and resilient with significantly more favorable debt terms which will be better equipped to face the current challenges. The enhanced scale will raise its visibility and enable the Enlarged REIT to be more competitive within the industrial S-REIT space, with the potential re-rating of the Enlarged REIT benefiting both Sabana-REIT and ESR-REIT unitholders. This will better position the Enlarged REIT to capitalise on future AEs and acquisition opportunities (both locally and overseas), to overcome the structurally short land lease tenor of the Singapore industrial market and to participate in the continued growth of the industrial sector as the global economy emerges from the COVID-19 crisis.

Full details of the recommendation of the Board, along with the advice of the independent financial adviser, will be included in the Scheme Document in due course. Sabana Unitholders should exercise caution in the trading of their Sabana REIT units in the meantime.

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<sup>5</sup> Please refer to Paragraph 5(c) of the Joint Announcement.

<sup>6</sup> Please refer to Paragraph 5(d) of the Joint Announcement.

<sup>7</sup> Please refer to Paragraph 5(e) of the Joint Announcement.

By Order of the Board  
Sabana Real Estate Investment Management Pte. Ltd.  
(Company registration no: 201005493K, Capital markets services licence no: CMS100169)  
As Manager of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust

Han Yong Lee (Donald)  
Chief Executive Officer  
5 August 2020

### **Directors' Responsibility Statement**

The directors of the Manager (including those who may have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and opinions expressed in this announcement (other than those relating to ESR-REIT and/or the ESR-REIT Manager) are fair and accurate and that there are no other material facts not contained in this announcement, the omission of which would make any statement in this announcement misleading. The directors of the Manager jointly and severally accept responsibility accordingly.

Where any information has been extracted or reproduced from published or otherwise publicly available sources or obtained from a named source (including ESR-REIT and the ESR-REIT Manager), the sole responsibility of the directors of the Manager has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this announcement. The directors of the Manager do not accept any responsibility for any information relating to ESR-REIT and/or the ESR-REIT Manager.

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### **Sabana REIT**

Sabana REIT was listed on the SGX-ST on 26 November 2010. It was established principally to invest in income-producing real estate used for industrial purposes, as well as real estate-related assets, in line with Shari'ah investment principles. As at 30 June 2020, Sabana REIT has a diversified portfolio of 18 properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors. The total assets of the Group amount to approximately S\$0.9 billion as at 30 June 2020.

Sabana REIT is listed in several indices within the SGX S-REIT Index, Morgan Stanley Capital International, Inc (MSCI) Index and FTSE index. Sabana REIT is one of the constituents of the FTSE ST Singapore Shariah Index.

Sabana REIT is managed by Sabana Real Estate Investment Management Pte. Ltd. (in its capacity as the Manager of Sabana REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended). Sabana REIT is a real estate investment trust constituted on 29 October 2010 under the laws of Singapore.

For further information on Sabana REIT, please visit [www.sabana-reit.com](http://www.sabana-reit.com).

### **Important Notice**

The value of units in Sabana REIT (“**Units**”) and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana REIT, or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that unitholders of Sabana REIT may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.