30 March 2021

10 in 10 – Elite Commercial REIT (SGX Code: MXNU)

10 Questions in 10 Minutes with SGX-listed companies

10 Questions for Elite Commercial REIT

Company Overview

Elite Commercial REIT is established with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom (UK). Elite Commercial REIT has a portfolio of 155 predominantly freehold quality commercial buildings across the UK, with a total net internal area of approximately 3.9 million square feet. The REIT's sponsors include Elite Partners Holdings, Ho Lee Group and Sunway RE Capital. *Link to StockFacts company page*

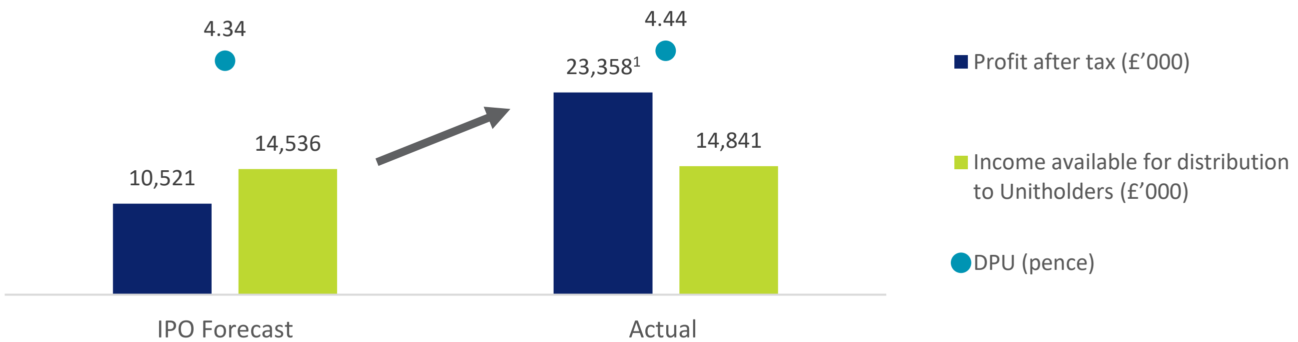
SGX Code: MXNU	**BBG**: ELITE SP	**RIC**: ELIE.SI
Market cap on 29 Mar (S$m)		575.3
Price on 29 Mar (S$)		0.660
52 wk high/low (S$)		0.705 - 0.540
12m ADTV (S$)		259,319
Shares Outstanding (m)		469.5
Float		79.4%
P/E (LTM)		14.8
P/B (LTM)		1.0
Dividend Yield		8.1%

Source: Bloomberg, Refinitiv (29 Mar 2021)

1. Describe Elite Commercial REIT's recent financial performance for its first year since listing.

- Elite Commercial REIT reported a strong set of results for the period from 6 Feb 2020 to 31 Dec 2020, outperforming IPO forecast with higher distributable income to unitholders and Distribution per Unit (DPU).
- Despite the challenging environment and economic uncertainty arising from the COVID-19 pandemic and Brexit, the REIT is well supported by stable cashflows backed by its AA-rated tenant, the UK Government with its uniquely counter-cyclical operations of the Department for Work and Pensions (DWP). As a result, the REIT achieved a distributable income to unitholders of £14.8 million and DPU of 4.44 pence, which is 2.1% and 2.3% higher than IPO forecasts respectively.
- There was also an uplift in portfolio valuation with a fair value gain of investment properties of £15.9 million, reflecting the underlying intrinsic value of the properties.

Key Financial Highlights
(6 Feb 2020 to 31 Dec 2020)



[1] Profit after tax includes net fair value gains on investment properties of £12.3 million.

Source: Company data

2. Can you share more about your investment and divestment strategy, and elaborate on the REIT's recent maiden portfolio acquisition?

- The REIT Manager will seek portfolio growth via rigorous research driven selection by focusing on long-term sector trends and fundamental real estate qualities to ensure attractive cashflows and yields. The REIT has a right of first refusal (ROFR) granted by its Sponsors on its pipeline – most of which are on long-term leases by various UK Government ministries.

- On 9 March 2021, the Manager completed the REIT's maiden portfolio acquisition of 58 properties across the UK which further extended its exposure to UK sovereign credit, whilst diversifying occupier mix. The £212.5 million acquisition was through a ROFR granted by one of the REIT's Sponsors. The yield accretive acquisition increased the REIT's total number of properties by 60% and market capitalisation by 39%. The enlarged portfolio also increased the REIT's overall London exposure to 14%, providing higher potential for rental and capital growth, and redevelopment opportunities.

- The acquisition also welcomed a new substantial unitholder. European institution Partner Reinsurance Company (PartnerRE), a leading global diversified reinsurance firm, now holds approximately 23% of the REIT's enlarged share capital. PartnerRE's decision to roll over their equity capital in the portfolio of 58 properties into the REIT is a display of confidence and alignment in the REIT's long-term investment strategy.

Part of acquisition portfolio: Oates House, 1 Tramway Avenue

Part of acquisition portfolio: 52-53 Medina Road, Finsbury Park

3. Describe the REIT's portfolio tenant mix. What would you maintain or change in terms of this mix?

- The REIT will continue to acquire quality tenants such as the UK Government, to ensure portfolio stability. The REIT's current enlarged portfolio of 155 properties is over 99.0% (by rental income) leased to the UK government, providing stable cashflow and attractive, recession-proof yields. Approximately 93% (by gross rental income) of the enlarged portfolio is occupied by the DWP, while the remaining 7% is occupied by other UK sovereign tenants.

- We are currently one of the largest landlords to the DWP, UK's largest public service department responsible for crucial welfare, pensions and child maintenance policy. This provides us with ample opportunities to work closely with the UK Government on their long-term requirements.

- Following the latest portfolio acquisition, the REIT expanded its tenant mix to include five new UK Government ministries, consisting of the Ministry of Defence, National Records of Scotland, HM Courts and Tribunal Service, National Resource Wales and Environmental Agency (sponsored by the UK Government's Department for Environment, Food & Rural Affairs).

4. Given that a majority of your tenants are the UK Government, does that make Elite a resilient and defensive REIT despite the challenging environment?

- Rated AA and Aa2 by S&P and Moody's respectively, the UK Government has one of the lowest debt-to-GDP ratios amongst the G7 countries. With over 99.0% of gross rental income derived from full repairing and insuring (triple net) leases, the REIT enjoys attractive, recession-proof yield with stable cashflow, making it resilient amidst the challenging backdrop.

- Majority of the leases to the UK Government have rent reviews every five years based on the UK Consumer Price Index, subject to an annual minimum increase of 1.0% and maximum of 5.0%, providing the REIT with a relatively predictable, embedded rental growth profile.

5. How has COVID-19 affected your operating conditions? What measures have you put in place to mitigate the impact?

- The REIT was minimally impacted by COVID-19, and consistently achieved close to 100% of its quarterly rent collection in advance since listing.

- As a uniquely counter-cyclical occupier, the DWP remains instrumental and integral to the UK social fabric, even amidst the UK's lockdowns, administering the State Pension and a range of working age, disability and ill health benefits. Notwithstanding the COVID-19 situation, the Group's leases did not undergo force majeure or termination clauses in 2020.

- There has been an increase in claimant count at each of DWP's JobCentres, as the UK Government has extended a range of economic support for businesses and unemployment recovery, including an extension of the furlough scheme and commitment to increase the number of work coaches to 27,000. JobCentre Plus locations remained open throughout the nation's lockdowns to process and disburse benefits to claimants.

- In addition, the REIT Manager pursues an active tenancy management strategy to reduce re-leasing risks. Portfolio income visibility were enhanced after securing waivers or extension of the break options for two properties – Lodge House, Bristol and John Street, Sunderland.

Over 20 million DWP benefits claimants in FY19/20 (~1/3 of the UK population)	**>£9,000** Spend p.a. per DWP claimant (31% of UK median wage)	A **ministerial department**, supported by 14 agencies and public bodies	Integral to the social fabric of the UK

Portfolio is Used to Provide Crucial DWP Services for the UK Government

6. How do you foresee DPU to be impacted as a result of COVID-19?

- We do not expect our income nor DPU to be affected by COVID-19. As a crucial public infrastructure of the UK social fabric, DWP's operations are counter-cyclical in nature. Over the past year, we have also been successfully collecting approximately 100% of our rent in advance. In FY2020, we have executed removal of break options and lease renewals and are targeting further break option removals to provide valuation uplift.

- Our enlarged portfolio has a long weighted average lease expiry (WALE) of about 7.2 years. The REIT's portfolio is therefore well supported by stable cashflows from the AA-rated UK Government.

7. What are the key focus areas for the REIT in the next 2-3 years?

- We are focused on providing investors with stable returns while seeking opportunities for future income and capital growth.

- Going forward, we continue to strengthen our portfolio and will closely monitor the market for growth opportunities via yield-accretive acquisitions. This includes properties under the ROFR pipeline granted by our Sponsors, most of which are on long-term leases by various ministries of the UK Government, and assets owned by third-parties.

Pictures of Elite Commercial REIT's portfolio

8. What drives Elite Commercial REIT's performance during this volatile period? What is your outlook for the REIT and its tenants?

- COVID-19 has had little impact on the REIT's portfolio and rent collection, given that our main tenant, DWP, is supported by the UK Government. We expect that the REIT will be able to continue providing stable income to its unitholders.

- Additionally, UK's unemployment rate is expected to increase once the furlough scheme ends. DWP received approximately 2.7 million unemployment claims as at 30 Nov 2020, more than doubled from 1.2 million claims in Mar 2020. During this volatile period, DWP had remained open and will continue to do so, in order to provide assistance to the UK citizens.

9. How has occupancy rates or rental reversions changed as a result of COVID-19?

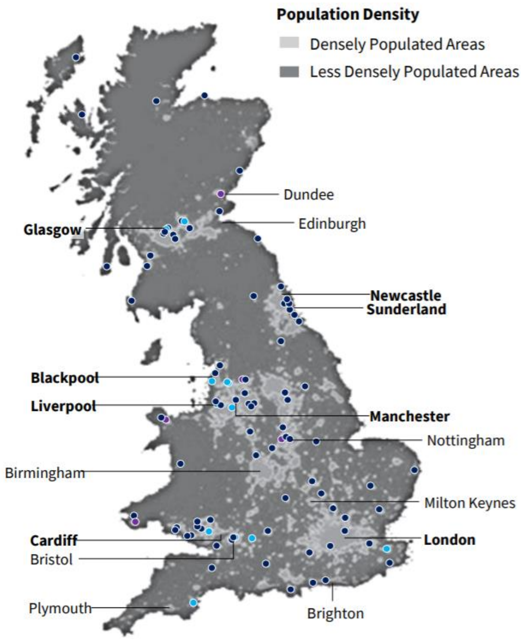
- Our portfolio of 155 properties remains fully occupied, and the REIT has been able to consistently collect close to 100% of rent in advance throughout FY2020, despite the UK's COVID-19 lockdowns and Brexit uncertainties. Majority of the leases have rent reviews in the fifth year (2023) based on the UK Consumer Price Index, subject to an annual minimum increase of 1.0% and maximum of 5.0%.

10. What is the REIT's value proposition to its shareholders and potential investors? What do you think investors may have overlooked about Elite's business?

- We believe that Elite Commercial REIT deserves a spot in every investor's portfolio. The REIT's investment mandate and focus is unique in the universe of S-REITs. Deriving over 99% of gross rental income from the AA-rated UK Government, the REIT's portfolio provides steady and resilient cashflow underpinned by uniquely counter-cyclical tenants.

- The geographically diversified portfolio is used by its UK sovereign tenants, to provide crucial services to its residents. Our predominantly freehold office assets are well-located near transport nodes and amenities. Approximately 14% of the portfolio's AUM are located in London, providing higher potential for rental and capital growth, and redevelopment opportunities.

- We believe that the REIT, with its attractive distributions, has a strong investment proposition amidst the current low interest rate environment and uncertain global economic outlook.



Geographical representation of Elite Commercial REIT's portfolio

Source: Company data

10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit https://www.elitecreit.com/
Click here for FY2020 Financial Results

Notes

Contact Us

For more information, please contact **asksgx@sgx.com**

sgx.com/research

Singapore Exchange
2 Shenton Way
#02-02 SGX Centre 1
Singapore 068804
main: +65 6236 8888