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Saizen REIT

Bloomberg: **SZREIT SP** Reuters: **SZNR.SI** Price: **SGD0.16** Date: **August 24, 2012**

GICS: Financials/Residential REIT's

Business Summary: Saizen REIT is a REIT with a portfolio of residential properties located in regional cities of Japan.

Country of Incorporation: Singapore

Head Office Location: #34-01 Springleaf Tower,, 3 Anson Road,, Singapore 079909

Place of Operations: Singapore and Japan

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Analyst: Sharon Wong, CFA/ Ching Wah Tam

Results Review

- **FY12 results better than expected.** Saizen's FY12 (Jun) results were above our expectations, with FY12 net property income of JPY2.34 bln being 8.5% higher than our forecast. Saizen recorded a higher net property income margin of 67.1% vs. our forecast 63.5% for FY12. Revenue and net property income declined by 9.9% YoY and 7.8% YoY respectively due to the sale of 31 properties in FY11 and a mild negative rental reversion, partially offset by the purchase of four properties in FY12. Despite the decline in revenue, Saizen posted a 3.1% YoY rise in net income from operations, due mainly to a 23.8% YoY drop in finance costs. Saizen has not only reduced its debt with proceeds from disposal of properties and conversion of warrants, but also refinanced debt at a lower interest rate.
- **Improvement in occupancy.** Average occupancy rates rose to 91.4% in FY12 from 90.9% in FY11, while overall rental reversion of new contracts in FY12 was slightly lower by 2.1% (vs. a decline of 4.1% in FY11) from previous contracted rates.
- **DPU of SG 0.63 cents.** Saizen has declared a distribution per unit of SG 0.63 cents, which will be paid on Sep. 18, 2012, bringing the total FY12 DPU to SG 1.24 cents vs. SG 1.02 cents in FY11. Saizen is looking to improve and rebalance its portfolio mix to enhance quality and yield of its assets, and also re-leveraging of its portfolio to increase distributable income.

Earnings Outlook / Estimates Revision

- **Include contribution from new buildings.** We adjust our FY13 and FY14 earnings forecasts to include contributions from its six new buildings, which Saizen acquired between late 2011 and August 2012. Saizen has potentially about JPY2.8 bln worth of unencumbered properties, which it could use to raise financing for new acquisitions. Saizen targets to raise its net aggregate leverage (net borrowings/value of investment properties) to an optimal level of 35%-40% from the current 24%.

Investment Risks

- **Global economy and epidemic.** A global epidemic such as SARS in 2003 or a global financial market meltdown such as the global financial crisis in 2008/2009 will have an adverse impact on Japan's economy. In addition, natural disasters such as earthquakes and volcano eruptions may cause severe damage to Saizen's buildings as Japan is located along the Pacific Ring of Fire, the world's most active earthquake belt. Japan has 10% of the world's active volcanoes.
- **Currency Risk.** Saizen naturally faces a certain degree of currency risk, given that its income is in JPY while distribution to shareholders is in SGD. Sharp foreign exchange fluctuations may impact the amount of dividends paid.

Key Stock Statistics

52-week Share Price Range (SGD)	**0.13 - 0.16**
Avg Vol - 12 months ('000 shares)	**1,072.9**
Price Performance (%) - 1 month	**7.9**
- 3 month	**21.5**
- 12 month	**11.6**
No. of Outstanding Shares (mln)	**1,424.4**
Free Float (%)	**78.1**
Market Cap (SGD mln)	**233.6**
Enterprise Value (SGD mln)	**434.9**
Major Shareholders (%)	
Yeh V-Nee	**18.9**
Chan Kin	**16.0**
Argyle Street Management Ltd	**15.8**

Per Share Data

FY Jun.	2011	2012	2013E	2014E
Book Value (JPY)	21.0	19.1	19.1	19.1
Cash Flow (JPY)	1.0	0.9	0.9	1.0
Reported Earnings (JPY)	-0.8	0.9	0.9	0.9
Distribution (JPY)	0.8	0.8	0.9	0.9
PER (x)	NM	11.2	12.2	12.0
P/Cash Flow (x)	9.9	10.9	11.0	10.8
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	6.3	7.5	8.3	8.4
ROE (%)	4.7	4.6	4.9	5.0
Aggregate Leverage* (%)	27.1	36.2	33.7	34.0

* Gross aggregate leverage = Total Debt/Value of inv properties

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Earnings Performance

FY Jun./JPY mln	4Q12	4Q11	% Change
Gross Revenue	907.7	908.6	-0.1
Net Property Income	616.4	510.1	20.8
Depreciation	0.0	0.0	NA
Net Interest Income/ (Expense)	-107.2	-121.8	-12.0
Total Return Before Tax	596.9	-1,682.2	NM
Total Return After Tax and MI	560.7	-1,703.4	NM
Net Property Income Margin (%)	67.9	56.1	-
Pre-Tax Tot. Ret. Margin (%)	65.8	NM	-
Net Total Return Margin (%)	61.8	NM	-

Source: Company data

Profit & Loss

FY Jun./JPY bln	2011	2012	2013E	2014E
Gross Revenue	3.9	3.5	3.8	3.9
Net Property Income	2.5	2.3	2.5	2.6
Depreciation	0.0	0.0	0.0	0.0
Net Interest Expense	-0.7	-0.6	-0.6	-0.7
Total Return Before Tax	-0.7	1.4	1.5	1.5
Total Return After Tax and MI	-0.9	1.3	1.3	1.4
Net Property Income Margin (%)	65.6	67.1	67.0	67.0
Pre-Tax Tot. Ret. Margin (%)	NM	39.9	39.3	39.2
Net Total Return Margin (%)	NM	36.2	35.4	35.1

Source: Company data, S&P Equity Research

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