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REIT: Sabana Shari'ah Compliant Industrial Real Estate Investment Trust
(Manager: Sabana Real Estate Investment Management Pte. Ltd.)

Stock code: M1GU

Meeting details:

Date: 27 April 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. The theme of the annual report for the REIT is “Focused on our commitments”. On page 1, the manager further described that the REIT is staying laser-focused on its commitment to create value for unitholders. Other than seeking growth opportunities, the manager strives to improve on the REIT’s performance through:

- proactive asset and lease management;
- prudent capital management; and
- strategic asset enhancement initiatives

One bright spark for the REIT in an otherwise challenging year has been the receipt of the Temporary Occupation Permit (TOP) for the REIT’s new NTP+ lifestyle mall.

The committed occupancy was 96.7% as at 25 March 2021.

- (i) **Has the REIT been able to fix the opening date? With the TOP obtained in early March 2021, how much time is needed to get the mall ready for opening? Have the rental rates met management’s expectations?**
- (ii) **Has the manager completed phase 2 of the “Refreshed strategy”? What are the other major asset enhancements or asset rejuvenation in its pipeline?**
- (iii) **Can the manager provide shareholders with greater clarity on the REIT’s Shari’ah-compliant status?**

The REIT’s occupancy of 76.5% is probably one of the lowest, if not the lowest, for REITs listed on SGX. The manager has stated that the occupancy rate of 76.5% is higher than the 75.4% at the previous corresponding year-end due to “proactive lease management”. However, with a vacancy rate of nearly 25%, it means that one out of every four floors of space is vacant. Occupancy rate in 4th quarter FY2020 was in fact lower than the occupancy rate of 80.2% in the 3rd quarter of FY2020.

- (iv) **Can the manager provide a detailed plan for 1 Tuas Avenue 4?** The carrying value has been further reduced to \$9.0 million as at 31 December 2020. The purchase price as \$28.0 million. The property has been left vacant for 3.5 years, since the second half of FY2017. No revenue was generated in 2HFY2017, FY2018, FY2019 and FY2020. **What are the characteristics of the property that makes it hard to sell/rent?**
- (v) Similarly, 30 & 32 Tuas Avenue 8 is vacant. **Is the manager close to securing a tenant for 30 & 32 Tuas Avenue 8?**

The following table shows the valuations as at 31 December 2020 and as at 31 December 2019, and a comparison with the purchase prices of the assets in the current portfolio.

ANNUAL VALUATION

	As at 31 December 2020 (\$'000)	As at 31 December 2019 (\$'000)	Purchase price (\$'000)
High-tech Industrial			
151 Lorong Chuan	333,400	323,000	305,900 + 20,000
8 Commonwealth Lane	53,500	57,000	70,300
15 Jalan Kilang Barat	21,300	22,800	34,500
1 Tuas Avenue 4	9,000	10,000	28,000
23 Serangoon North Avenue 5	36,400	34,600	61,000
508 Chai Chee Lane	63,800	64,200	67,200
Chemical Warehouse & Logistics			
33 & 35 Penjuru Lane	42,700	51,000	78,900
18 Gul Drive	19,200	20,000	34,100
Warehouse & Logistics			
34 Penjuru Lane	33,000	37,700	60,000
51 Penjuru Road	32,800	40,700	42,500
26 Loyang Drive	24,700	24,700	32,000
3A Joo Koon Circle	33,800	38,000	40,300
2 Toh Tuck Link	29,800	31,400	40,100
10 Changi South Street 2	33,700	49,300	54,200
General Industrial			
123 Genting Lane	16,400	17,600	24,500
30 & 32 Tuas Avenue 8	24,200	27,000	24,000
39 Ubi Road 1	17,400	20,700	32,000
21 Joo Koon Crescent	15,000	14,700	20,300
TOTAL	840,100	884,400	1,069,800

(Source: adapted from annual report)

Of all the assets in the portfolio, 151 Lorong Chuan has a valuation that is higher than the purchase price (including a \$20 million AEI) while 30 & 32 Tuas Avenue 8, despite being vacant, is \$200,000 higher. All the other assets are lower, even if compared to the FY2019 valuation (pre COVID). The aggregate purchase price is more than \$200 million higher than the current valuation (\$185 million compared to FY2019 valuation).

- (vi) **Has the board carried out a review of the REIT's acquisition track record (all of which would have been under the previous management)?**
- (vii) **Did the board also review the past approval papers? Were past acquisitions based on reasonable and sound judgement?**
- (viii) **What lessons can be learnt from the REIT's past acquisitions?**
- (ix) **What changes have the current board/manager made to the REIT's investment/approval process? Please (re)state the REIT's investment criteria so that unitholders can better understand the manager's investment framework.**

Q2. The overview of the borrowing profile of the REIT is shown on page 17 of the annual report and reproduced below:

BORROWING PROFILE

	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018
Aggregate leverage ² (%)	33.5	31.1	36.8
Total borrowings (\$ million)	284.8	276.5	363.0
Proportion of total borrowings on fixed rates (%)	50.0	36.2	71.6
Average all-in financing costs (%)	3.1	3.9	4.2
Weighted average tenor of borrowings (years)	1.2	2.3	1.3
Profit coverage ratio ³ (times)	3.5	3.7	3.1
Unencumbered assets ⁴ (\$ million)	51.7	133.7	240.8
Undrawn committed facilities available (\$ million)	59.2	37.5	5.0

(Source: annual report)

- (i) **Can the manager help unitholders understand if the REIT has been sourcing for assets under Phase 3 of its Refreshed strategy?**
- (ii) **Has the board set an internal limit on gearing?**
- (iii) **What is the manager doing to further optimise/reduce its all-in financing costs?** The REIT's cost has decreased to 3.1% from 3.9% in FY2019.
- (iv) **Given that the REIT has 50% of its borrowings on floating rates, is the REIT manager taking a particular view on interest-rate? Has the manager evaluated locking in a higher percentage of its borrowings given the current low interest rate environment?**
- (v) **Similarly, with a weighted average tenor of 1.2 years, is the REIT exposing itself to unnecessarily high refinancing risks?**

Q3. The manager also added that it will continue to strengthen confidence in Sabana REIT and explore and consider all strategic opportunities to drive performance and enhance resilience.

This follows the offer of merger from ESR-REIT which the board and management "felt then that it had the duty" to proceed with the proposed merger as it evaluated all options to strengthen the REIT and secure its future.

Following weeks of exchanges with minority unitholders, the merger was voted down by unitholders. The manager said that it is "heartened by [unitholders]' confidence in Sabana as a standalone REIT". Ms Ng Shin En, who was re-designated as an independent director, resigned days after the EGM.

- (i) **Has the board considered that the vote against the merger should not be interpreted as a vote of confidence in the REIT but more as a vote against an poor offer?**
- (ii) **In addition, would the board clarify if it has confidence in the REIT as a standalone REIT?**
- (iii) **What is the total amount of professional fees incurred for the merger? As a sign of goodwill, and to (re)earn the trust of unitholders, would the manager consider absorbing half to all of the fees incurred in the past year to take a positive first step in restoring unitholders' trust?**
- (iv) **The manager has also added that it will "continue to strengthen confidence" in the REIT. Would the manager help unitholders understand how it would be doing that? Would the manager consider putting up the directors and the CEO for endorsement by minority unitholders?**
- (v) **On 24 March 2021, the REIT announced the resignation of two directors and their last day of service would be on 26 April 2021. Would the nominating and remuneration committee (NRC) carry out an open and transparent process, free of influence from ESR and from substantial unitholders, to search for new directors using a professional search firm? Would the NRC stop the practice of tapping its networking contacts for director candidates so as to further improve the diversity of its director candidates?**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
 (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)



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