

# Filinvest REIT Corp. [PSE: FILRT]

Thursday, July 22, 2021

Reference: Claire T. Alviar

## OUR TAKE

SUBSCRIBE TO FILRT but limit your position as there is still a possibility for the share price to decline on its first two trading days given the performance of the listed REITs, exacerbated by the current downside risk in the general market, the Delta Variant.

On the bright side, the dividend yield would be competitive if it comes at its forecast of 6.27% or at par with the other REITs around 5%.

Take note that this is suited only for long-term investors. Reassess your investment every year.

## NARRATIVES

### Upside:

- The BPO sector occupies majority of its GLA. (refer to p2)
- 39.30% of the lease expiry is on 2025 and beyond, with organic growth from fixed rental escalations of 5% per annum. (refer to p2)
- Revenues still posted growth despite the pandemic in 2020. (refer to p3)
- The company's projected dividend yield for this year is at 6.27% based from its final offer price of P7.00. (refer to p3)
- BPO drives the office demand. (refer to p4)
- The forecasted FILRT dividend yield is higher than the other two REITs in the market. This is unless it maintains the 5.30% forecasted dividend yield by lowering its projected amount of dividends. (refer to p4)

### Downside:

- The POGO occupies only 2.80% of its GLA. Still, this may pose risk to the occupancy rate. (refer to p2)
- Almost 20% of its rental revenues could be lost if the expiring 2021 and 2022 tenants will not renew their contracts. (refer to p2)
- The occupancy rate was adversely affected by the Covid-19 pandemic, declining to 90.3% as of April 30, 2021 from 98.30% in 2019. (refer to p2)
- Bottom line increased by 13.85% in 2020. However, this is due to lower income tax paid for the period. (refer to p3)
- Debt ratio is high at 0.80x compared with the other two listed REITs. Of its total revenues, 11% were used to pay interest. (refer to p3)
- In 2022, it forecasts higher distributable income but lower net income. (refer to p3)
- The Delta Variant poses downside risk. (refer to p4)

## USE OF PROCEEDS

All proceeds from the IPO will be received by the Selling Shareholder, Filinvest Land, Inc.

### SUMMARY OF THE OFFER

Offer Price	P7.00
<b>Offer Shares</b> Secondary shares	1,634,187,850
Over-allotment Option	163,418,785
Offer Period	July 23 to Aug 03, 2021
Minimum Subscription	1,000 shares
Outstanding Shares (Post-IPO)	4,892,777,994
Market Capitalization (Post-IPO)	Up to Php 34,249,445,958.00
TP Allocation	Up to 326,837,600 common shares equivalent to up to Php 2,287,863,200.00
Allocation per TP	Up to 2,701,100 common shares equivalent to up to Php 18,907,700.00
LSI Allocation	Up to 163,418,800 common shares equivalent to up to Php 1,143,931,600.00
Estimated net proceeds	P12,103 Mn
Estimated Public Float (Post-IPO)	33.40%
Price setting date	July 19, 2021
Listing date	August 12, 2021
Underwriters	BPI Capital Corporation China Bank Capital Corporation
Sponsors and Selling Shareholders	Filinvest Land, Inc.

### BOARD OF DIRECTORS

Chairperson of the Board	Lourdes Josephine Gotianun—Yap
Director, President and Chief Executive Officer	Maricel Brion-Lirio
Director	Tristaneil D. Las Marias
Independent Director	Val Antonio D. Suarez
Independent Director	Virginia T. Obcena
Independent Director	Gemilo J. San Pedro
Chief Financial Officer, Treasurer and Compliance Officer	Ana Venus A. Mejia
Corporate Secretary	Sharon P. Pagaling-Refuerzo
Investor Relations Officer	Patricia Carmen Pineda

## COMPANY BACKGROUND

Filinvest REIT Corp. (formerly Cyberzone Properties, Inc.) is a real estate investment trust (REIT) one can own to invest in income-producing commercial portfolios of office and retail properties. It will be the commercial platform of the Filinvest Group. FILRT is a provider of standard and build-to-suit BPO office spaces with a portfolio of 17 office buildings with an aggregate office space gross leasable area (GLA) of 299,158 sqm and 2,204 sqm of retail GLA. FILRT properties are comprised of the Northgate Cyberzone and the Cebu Tower.

Northgate Cyberzone is an 18.7 hectare IT and BPO park located within the Filinvest City township in Alabang, Muntinlupa City. It is a PEZA-registered IT zone and the third-largest IT hub in Metro Manila as of March 31, 2021. It has an aggregate of 279,221 sqm of office space and 1,529 sqm of retail GLA. Cebu Tower 1 is a 13-storey building with approximately 19,937 sqm of office GLA and 675 sqm of retail GLA, located in Filinvest Cyberzone Cebu. It is a commercial development under a "build-transfer-operate" (BTO) agreement with the Cebu Provincial Government

**The BPO sector occupies majority of its GLA. The POGO only has 2.80% but this may still pose risk to its occupancy rate.**

For the tenant sector breakdown, the majority or 88.40% of its portfolio goes to the Business Process Outsourcing (BPO) industry followed by the traditional, occupying 8.1%. Next is the POGO sector with 2.80%. Lastly, the retail which has 0.70% of its occupied GLA.

Despite having only a 2.80% share in its occupied GLA, the company may still get affected by the uncertainties of the POGO sector.

**39.30% of the lease expiry is on 2025 and beyond, with organic growth from fixed rental escalations of 5% per annum.**

Almost 40% of the occupied GLA will expire its lease on 2025 and beyond. Meanwhile 10.7% and 11.2% of the lease will expire this year and next year respectively. The company also has a strong organic growth with approximately 90% of the leases having contractual fixed rental escalations of 5% to 10% per annum.

**Almost 20% of its rental revenues could be lost if the expiring 2021 and 2022 tenants will not renew their contracts.**

If it comes to worst and the tenants will not renew their contract, 10.30% of the rental revenues will be gone this year while an additional 9.70% will be lost in 2022.



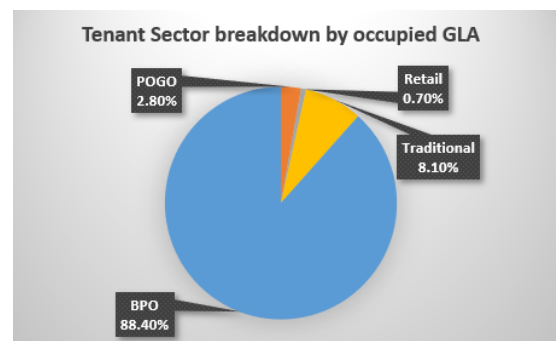
Source: FILRT Prospectus

**The occupancy rate was adversely affected by the Covid-19 pandemic, declining to 90.3% as of April 30, 2021 from 98.30% in 2019.**

As of April 30, 2021, the properties' overall occupancy rate is at 90.3%, comprising 272,258 sqm of GLA. This is lower than end-2020's 90.40% but higher than the end of the first quarter of 89.80%. All buildings are Grade A, PEZA-accredited, office buildings while the Axis Tower 1 and Vector Three are certified LEED Gold.

	2018	2019	2020
Occupancy Rate	90.40%	98.30%	90.40%

Source: FILRT Prospectus



Source: FILRT Prospectus

Key Operating Data	2018	2019	2020	2021 (As of March 31, 2021)
Total GLA (sqm) of Properties	301,362	301,362	301,362	301,362
Total Occupancy Rate (leased buildings) (%)	90.60%	98.2%	91.10%	89.70%

Source: FILRT Prospectus

Property	Office GLA (Retail) in sqm	Number of Storey	Completion	Occupancy Rate
Axis Tower 1	39,340 (1,529)	25-storey	March 2018	89.60%
Filinvest One	19,637	10-storey	June 2013	100.00%
Filinvest Two	23,784	14-storey	September 2015	100.00%
Filinvest Three	17,784	14-storey	January 2015	66.50%
Vector One	17,764	14-storey	May 2011	92.00%
Vector Two	17,889	14-storey	September 2014	100.00%
Vector Three	36,345	22-storey	January 2017	68.30%
Plaza A	10,860	six-storey	October 2007	100.00%
Plaza B	6,488	four-storey	March 2001	85.20%
Plaza C	6,540	four-storey	March 2001	100.00%
Plaza D	10,860	six-storey	June 2007	83.20%
Plaza E	14,859	12-storey	February 2014	100.00%
iHub1	9,480	six-storey	June 2008	70.70%
iHub2	14,181	nine-storey	August 2009	100.00%
5132 Building	9,409	six-storey	November 2007	100.00%
Capital One	18,000	five-storey	October 2005	100.00%
Cebu Tower 1	19,937 (675)	13-storey	June 2015	99.10%

Source: FILRT Prospectus

## FINANCIAL HIGHLIGHTS

### FY2019 vs. FY2020 Performance

#### Revenues still posted growth despite the pandemic in 2020.

Total revenues grew by 7.10% mainly due to the 215.04% increase in other income to P274.4 Mn given the full-year income recognition from spaces awarded to top multinational BPO and ROHQ tenants in 2020. Meanwhile, the rental revenue increased by only 0.66%, contributing 91.17% of the total revenues in 2020.

#### The bottom line increased by 13.85% in 2020, however, this is due to lower income tax paid for the period.

Income before income tax growth is only at 1.74%, lower than the revenue growth of 7.10% as costs and expenses jumped by 15.75% to P851.1 Mn. Meanwhile, the bottom line climbed by 13.85% only because of lower income tax paid amid closing of deferred taxes related to buildings included in the property dividends during the year.

#### Debt ratio is high at 0.80x compared with the other two listed REITs. Of its total revenues 11% were used to pay interest.

The company's debt ratio was more than 0.50x since 2017 given its issuance of bonds in that year. Moreover, it increased to 0.80x in 2020 from 0.64x in 2019 as the total liabilities in 2020 jumped by 41.48%, higher than the total assets' growth of 13.68%.

Given these, interest payments may eat a bigger portion of revenues, which in turn could lower the distributable income.

FILRT's debt ratio as of 1st quarter of 2021 of 0.74x is noticeably higher compared to AREIT and DDMPR's average debt ratio of 0.29x. Cost efficiency wise, DDMPR stands out with a net profit margin of 71.11% due to its lower debt payment. FILRT's net profit margin came in next at 59.81%, while AREIT lagged with 59.26%.

For the first quarter of 2021, FILRT's revenues declined by 8.08% due to the pre-termination of leases. Meanwhile, its net income still climbed by 26.10% amid benefits from income tax.

In PHP Mn	2019	2020	Growth
Revenues	2,901.80	3,107.80	7.10%
Total Expenses	735.3	851.1	15.75%
Income before income tax	1,943.80	1,977.70	1.74%
Net income	1,634.40	1,860.80	13.85%

Source: FILRT Prospectus

#### REITs Comparison as of March 31, 2021

	FILRT	AREIT	DDMPR
Current Ratio	1.22	0.30	3.76
Debt Ratio	0.74	0.37	0.22
Net Profit Margin	59.81%	59.26%	71.11%

Source: FILRT Prospectus

## DIVIDENDS

The company distributed an average of 24.7% of its prior year's net income from 2017 to 2019. There has been no declaration of a cash dividend in 2020.

**The company's projected dividend yield for this year is at 6.27% using its final offer price of P7.00** (The company annualized its forecasted dividend yield for 2021 by multiplying its projected 2nd half dividends by 2).

FILRT projects that it will distribute 125.1% of its distributable income in 2021, with a dividend yield of 5.30% at its maximum offer price of P8.30. Since the final offer price is lower, the projected 2021 yield increased to 6.27%.

#### In 2022, it forecasts higher distributable income but lower net income.

The company estimates distributable income to grow 9.41% to P1,878.10 Mn in 2022, distributing 120.70% of it, with net income projected to decline by 9.37% y/y. The projected dividend yield is at 5.6%, assuming that the price would be at P8.30.

FILRT intends to declare and pay out dividends on a quarterly basis each year.

Year	Cash Dividends (Mn)	Prior Year Net Income	% of Dividends
2017	P383.90	P1,347.68	28.5%
2018	P312.50	P1,183.48	26.40%
2019	P348.30	P1,410.28	24.70%
2021F	P1,074.00	P858.30	125.10%
2022F	P2,267.00	P1,878.10	120.70%

Source: FILRT Prospectus

\*Forecasted figures came from the company's prospectus. In the forecast period, Prior net income refers to the distributable income.

## INDUSTRY ANALYSIS

### BPO drives the office demand but the Delta Variant poses downside risk.

According to a study by Leechiu Property Consultants (LPC), demand for office space nationwide grew by 38% quarter-on-quarter (q/q) to 169,000 sqm in the second quarter, 54% of which are attributed to the BPO industry. Given this, office demand could resume with its pre-pandemic growth trajectory. Meanwhile, for the Philippine Offshore Gaming Operators (POGO) industry, Leechiu expects a revival in their interest in the Philippine office market amid reopening of international borders with the help of the passage of Senate Bill 2232, which clarified tax concerns of POGOs.

On our end, we believe that the BPO industry will drive the growth of the property sector. However, the expansion plan of these would still be uncertain as some BPO firms are implementing work-from-home setups. Currently, the Covid-19 vaccine rollout helps in lifting the sentiment. COVID-19 risks still remains however, particularly due to the Delta variant. Once the Philippines is placed on a strict lockdown again, major risks are seen for the property sector's outlook.

## COMPARISON WITH OTHER SECURITIES

### Based on its final offer price and projected amount of dividends, FILRT's dividend yield is at 6.27%, higher than the other two REITs in the market.

Based on its dividend projection for 2021 and its final offer price which was lowered from the P8.30 maximum to P7.00, FILRT would have a dividend yield of 6.27%. This will be the highest among the three REIT's in the market. FILRT may however follow its initial dividend yield forecast of 5.30% by lowering the amount of dividends it will distribute. At 5.30%, FILRT will still be at par with the other REITs or around 5.00%.

Judging on the current dividend declaration of the two listed REITS, AREIT has the best performance with a yield of 6.22% based on its offer price in addition to its capital gains.

For the share price movement, both AREIT and DDMPR did not gain on their first two days in the market. As of their July 21 closing price, AREIT outperformed with a 34.07% gain from its offer price compared to DDMPR with a 14.22% loss.

2021 Forecast	FILRT	AREIT	DDMPR
Dividend Yield (F)	6.27%	5.85%	5.07%
Offer Price (PHP)	7.00	27.00	2.25
Dividend per share	0.2195	1.58	0.11402
Source: FILRT Prospectus			
1Q 2021	FILRT	AREIT	DDMPR
Dividend Yield based on offer price	-	6.22%	3.58%
Offer Price (PHP)	-	27	2.25
Dividend Yield based on current price	-	4.65%	4.13%
Current Price (PHP)	-	36.15	1.95
Dividend per share	-	0.42	0.020136

Source: FILRT Prospectus

\*Dividend yield was multiplied by 4.

\*\*Current price is based on the date of the declaration of dividend.

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