

Research Note: TSL Real Estate Investment Trust IPO

Independently prepared by Northcourt Real Estate

Overview

The Top Services Limited Real Estate Investment Trust [TSL REIT] is a close-ended Equity REIT on offer, sponsored by Top Services Limited – a speciality developer focused on retail malls. The REIT is a collective investment scheme regulated by the Securities and Exchange Commission of Nigeria and to be listed on the Nigerian Stock Exchange on April 17, 2017.

The properties are under long leases/concessions with Wemabod, Odu'a Group, LSDPC and the Ondo State Government who receive a portion of annual rent (except LSDPC). Title for all the properties is held 100% by the Sponsor. The Sponsor will hold 30% of the REIT allotment.

The REIT offers investors the opportunity to invest indirectly in a retail REIT.

Offer Summary

Offer Open	1 st February 2017
Offer Close	10 th March 2017
Offer Price per Share	₦1,000
Units on offer	20 Million

Investment Forecasts

	2017	2018	2019	2020	2021
	₦ 'm	₦ 'm	₦ 'm	₦ 'm	₦ 'm
Opening NAV	19,588	19,137	18,685	18,234	17,783
Total Income	2,187	2,507	2,793	3,118	3,487
Total Expenses	732	725	732	725	732
NAV at Year End	19,173	18,766	18,367	17,975	17,593
Earnings Yield (%)	9.55%	11.44%	13.17%	15.27%	17.65%

Portfolio Summary

Asset	Location	Class	Lettable Area	Unexpired Term	Occupancy	Value	Price per Sqm
Adeniran Ogunsanya Mall	Surulere, Lagos	Retail	15,000sqm	45 Years	97%	₦4.36B	₦290,933
Apapa Mall	Apapa, Lagos	Retail	10,000sqm	30 Years	82%	₦6.82B	₦681,500
Cocoa Mall	Dugbe, Ibadan	Retail	8,500sqm	30 Years	98%	₦2.74B	₦322,823
Akure Mall	Akure, Ondo	Retail	10,000sqm	28 Years	84%	₦2.27B	₦226,900
Other investible Funds	-	-	-	-	-	₦3.39B	-

Positives

- The TSL REIT strategy is to invest in core retail assets – malls already built, fully operational and generating sustainable income and will not invest in off-plan transactions thereby reducing construction and market risks.
- The REIT's properties have a good tenant mix that is diversely located with more than 80% average occupancy. The corporate anchor tenants have a good track record and staying power, which suggests that cash flow is both predictable and sustainable.
- Inflationary effects on the REIT are reduced as rental incomes from the properties are linked to the dollar.
- The TSL REIT gives holders access to retail yields which have been historically good and are foreseeably so in the Nigerian context. 97.5% of the net income earned will be distributed and this has been forecasted to start at 9.5% and peak at 17.65% within 5 years
- The Trustee (ARM Trustees) and Custodian (Stanbic IBTC Bank) are well known for proficiency in their trades and the Fund Manager (First Ally Asset Management) though fairly recently incorporated, is led by an experienced management team and board.

Negatives

- Should the Nigerian economy continue to see depression, consumer spending is likely to continue its nosedive, having strong linkage to the underlying assets - retail malls, profitability of the REIT will be adversely affected.
- While the underlying assets are located in South West Nigeria partly for its relative stability, there have been attempts at executing terrorist activity in the region. This remains a potential scare on large scale real estate in the country.
- The financial forecasts don't seem to consider major remodelling/repairs required over a 5-year horizon for the assets which may hinder the ability to attract prime rents in future. Where the repairs are made outside of the budget, the forecast earnings will reduce.
- The use of about 16% of the REIT proceeds are not clearly stated in all formal documentation.

The TSL REIT prospectus along with other Nigerian REIT offers can be found on our download tab by clicking on the link

northcourtrealestate.com/TSLREITPROSPECTUS

Northcourt Lead Analysts

tayo.odunsi@northcourtrealestate.com / +234 (0) 823 250 289 | ayo.ibaru@northcourtrealestate.com / +234 (0) 818 518 6975

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual, entity or property. Although we endeavor to provide