

Quarterly Update

Rating

BUY

LATAM (Caribbean)

Sector: Finance

Industry: Real Estate

SYGNUS | Real Estate Finance Limited

JSE
SRFJMD

Bloomberg
SRFJMD JA

Q3 2023: Significant milestones accomplished despite marquee project delay.

Financial Overview

Revenues & Profitability

Sygnus Real Estate Finance Limited (SRF) continued to make progress towards achieving its key milestones during the 9-month period ended May 31, 2023. During the period, SRF significantly advanced construction of its One Belmont asset, reaching 87.0% completion. Furthermore, SRF successfully secured lease agreements for 100% occupancy, a key achievement. The Spanish Penwood industrial warehouse is now 99.0% complete and the tenant, IMCA Jamaica Ltd., has already paid the required security deposit. Over the next three months, as we approach the end of FY 2023, SRF is expected to complete in excess of J\$5.4 billion of real estate projects, excluding third party REINs. Concurrently, SRF plans to divest investments amounting to over J\$1.8 billion. Additionally, the Group is taking steps to reinvest proceeds from the divestments into new projects, including a luxury residential project via a joint venture partnership in Kingston.

For the 9-month period ended May 31, 2023 the Group's Total operating income was -J\$135.7 million or 281.4% lower than the amount delivered in the same period last year. The significantly lower income generated by SRF was primarily attributable to higher net interest expense, due to higher utilisation of debt in bridge financing coupled with lower weighted average yield on its REINs (real estate investment note), when compared to the amount recorded last year. At the same time, the weighted average cost of financing increased as market interest rates moved higher. Additionally, the Group reported a Fair Value (FV) loss on Financial Instruments of J\$46.8 million in 9M 2023 versus a FV gain on Financial Instruments of J\$22.9 million in 9M 2022 and Net Foreign Exchange Loss of J\$88.4 million in 9M 2023 versus Net Foreign Exchange Loss of J\$8.1 million in 9M 2022.

The real estate group also had to contend with higher Expenses over the period. Operating expenses grew 22.1%, coming in at J\$332.6 million, when compared to the J\$272.4 million recorded in the similar period in FY 2022. This increase was primarily due to higher management fees, which rose substantially over the previous years out turn by J\$61.3 million or by 39.3%.

The lower income generated and higher expenses incurred over the period, led to a deterioration of the Group's operating profits. Over the first three quarters of FY 2023, SRF reported an operating loss of J\$468.2 million which was 136.9% lower than the operating loss of J\$197.6 million reported over the similar period in FY 2022. The company received J\$3.1 million as its share of profits from its joint ventures during the period. These joint ventures include SRF's 70% ownership interest in Audere Holdings, the joint venture that holds the assets of the One Belmont commercial tower and its 51% ownership interest in Monadh Rois, a luxury residential property in Kingston's golden triangle.

Net loss attributable to shareholders for the 9-month period was J\$465.1 million versus a net loss of J\$197.46 million over the same period last year.

September 27, 2023

Current price	J\$10.15
Expected dividend	J\$0.88 - J\$1.32
Target price	J\$16.01
Previous target price (April 2023)	J\$15.94
TOTAL RETURN	57.76%

Company Data

Outstanding shares	2,243,005,125
Market Cap	22,766,502,019
52-Week (Lo/Hi)	9.00/15.00
12M Daily Average Volumes	13,948

Major Shareholders

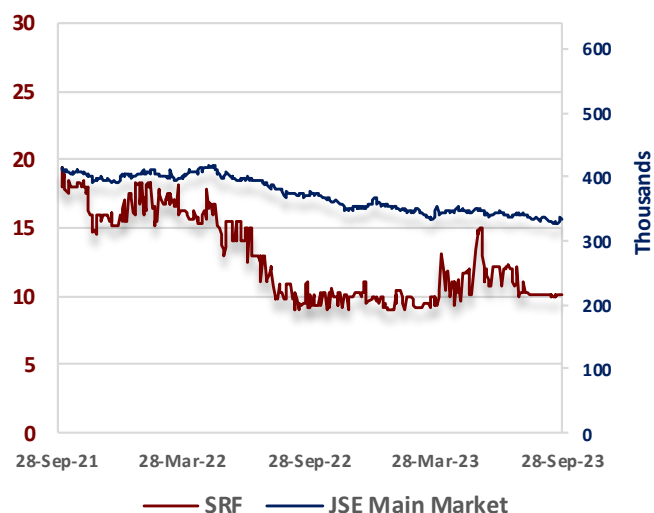
ATL Group Pension Fund Trustees	12.9%
SJIML A/C 3119	6.1%
Dynamix Holdings Incorporated	6.1%

Key Financials

JMD Mn	FY20	FY21	FY22
Net Interest Income	65.23	8.83	69.53
Operating Profit	371.58	47.53	298.22
Net Profit	366.35	1,811.60	692.96
Net Profit Change (%)	n/a	394.5%	-61.7%
EPS (Basic)	2.47	9.93	2.20
Dividend Yield	n/a	n/a	n/a

Price Performance

	1MTH	3MTH	1YR
SRFJMD	0.0%	-16.4%	10.3%
Main Index	1.0%	-2.7%	-9.8%



Efficiency Ratio FY 2022	Book Value Per Share FY 2022	Total Investment Income FY 2022	Real Estate Investment FY 2022
27.1% + 1.65%	23.24 + 61.12%	J\$1.35B - 42.9%	J\$13.14B +51%
FY 2021: 25.44%	FY 2021: 14.42	2021: J\$2.36B	2021: J\$8.69B

Financial Overview

Revenues & Profitability (cont'd.)

As expected, no Gain on investment property was recorded in the first nine months of 2023 since these assets are revalued only once per year, at the end of the financial year, in August. At the end of Q1, SRF had indicated that the One Belmont development was expected to be completed by the end of the financial year. However, it is now likely that completion will be postponed to the first quarter of FY 2024. As the project is now significantly complete, we expect to see an increase in revaluation gain at the year-end (August 2023) during the normal revaluation period. Furthermore, given that One Belmont has already secured long-term lease agreements with tenants covering 100% of the space, if lease payments begin while SRF continues to hold all or part of its share in the joint venture, these lease income flows will impact the total investment income, starting in the quarter when this arrangement takes effect.

The Spanish Penwood industrial warehouse is being built to meet the specific needs of IMCA Jamaica Ltd. and was scheduled to be completed early in FY 2023. SRF has secured a USD multiyear lease agreement with the company, thus guaranteeing a long-term exit strategy and a significant boost to SRF's performance when completed. Given this was 99.0% completed in Q3, it is highly likely to become operational by the year-end(August 2023).

Balance Sheet

As at the end of May 2023, SRF's Total assets amounted to J\$14.5 billion, reflecting an increase of 5.26% compared to the end of FY 2022. The uptick in the value of SRF's assets was largely driven by growth in Investment property and Interest in joint ventures. However, these were offset by Cash and cash equivalents and Investments. The company's Total liabilities amounted to J\$7.3 billion at May 30, 2023, after jumping by 19.2%. This uptick was largely driven by a 259.5% increase in Notes Payable over the nine months.

Due to the loss incurred during the first nine months of the year, Total shareholders' equity declined by 6.1%, falling from J\$7.6 billion at the end of FY 2022 (August 31, 2022) to J\$7.1 billion as at May 31, 2023. As at the end of Q3 2023, SRF's book value per share was J\$21.82.

Valuation Summary

Relative Valuation Method (Summary)

Industry Average P/B = 0.734x

SRF's BV = J\$21.82

P/B Valuation Est. = J\$16.01

Risks to monitor

Heath Outbreak – Notwithstanding the significant improvement in terms of COVID-19, another variant of that virus or other illnesses may not only result in significant disruptions in the Group's activities but could also curtail economic growth, asset prices and put further pressure on the company's resources.

Recession Fears – Inflationary pressures remain high and central banks have continued to maintain tight monetary policy, increasing the risk of a severe slowdown in economic activities which may lead to increased vacancies.

Construction Risk – One way SRF unlocks value is through the construction of real estate projects. As a result, there is the possibility that construction activities could be disrupted, leading to missed completion timelines etc. or even completed projects which do not meet specification. Ultimately, these could cause the cash flows/yields from these projects to be lower than projected.

High Interest Rate – As a core function, SRF provides credit for real estate projects. The current high-interest rate environment may result in a decline in demand for these loans, or where loans have been made, borrowers may find it more difficult to service their obligations. This could lead to slower credit growth and/or increased non performing loans for SRF. The higher interest rate environment could also increase the Group's cost of funding.

Illiquidity Risk – The company is on track to complete its first round of investments since inception. If there is a delay in exiting projects this could cause illiquidity and a prolonged investment period. However, the company has indicated that the majority of these projects already have agreed purchasers.

9-Month Milestones

Spanish Penwood | Industrial Warehouse: The Spanish Penwood industrial facility, tailored to the needs of IMCA Jamaica Limited, is s presently at 99% completion as of June 2023. It is on track to be fully-completed by the end of FY 2023. SRF has secured a US dollar long-term lease agreement and the leasee has paid the necessary deposit to SRF.

One Belmont | Commercial Tower: While it is expected that One Belmont will not meet the targeted completion deadline, it is worth noting that the project was reportedly at ~87.0% completion as at June 2023. Importantly, during this period, SRF secured signed leases for 100% occupancy across all floors. It's now likely that full completion will be achieved in Q1 2024.

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