



DataPro



FUND RATING REPORT

SFS REAL ESTATE INVESTMENT TRUST

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March, 2025

SFS REAL ESTATE INVESTMENT TRUST FUND

Long-Term Rating:

A^(f)

Previous Rating: A^(f)
Fund Type: Close ended
Real Estate
Investment
Trust (REIT)
Fund Size: ₦2.6Billion
(as at Dec 31,
2023)
Currency: Naira
Fund Outlook: Stable
Date Issued: 19 Mar., 2025
Valid Till: 18 Mar., 2026

Reference:

Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

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EXECUTIVE SUMMARY

	2023 ₦'000	2022 ₦'000	2021 ₦'000	2020 ₦'000	2019 ₦'000
Investment Income	395,417	247,785	232,623	244,324	224,164
Net Income	317,503	186,621	160,517	175,138	162,115
Dividend	290,000	169,000	145,000	162,000	146,000
Investment Property	1,968,950	1,820,390	1,820,390	1,775,390	1,846,390
Trading Portfolio	574,471	575,326	686,255	923,410	818,622
Total Assets	3,300,025	2,956,305	2,866,214	2,834,179	2,719,889
Equity	2,593,573	2,445,069	2,403,445	2,405,584	2,376,446

Rating Explanation

The Long-Term Rating of A^(f) indicates *Low Risk*. It is assigned to *Funds* which have Very Good Financial Strength, Operating Performance and Profile when compared to the standard established by *DataPro*. This *Fund*, in our opinion, has strong ability to meet its ongoing obligations.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk factor.

The qualitative information used were obtained from *The Fund* Manager during interview sessions with its representatives and the examination of Trust Deeds and Custody Agreement. The quantitative information used were obtained from *The Fund's* Prospectus.

The risk factors were assessed by considering the credit, interest rate and liquidity risks including the regulatory framework and operating performance of *The Fund* Manager.

Our review of the Investment Strategy of *The Fund* reveals the following:

Positive Rating Factors:

- Good Asset Quality
- Good Liquidity

Negative Rating Factors:

- Legal Risk
- Concentration Risk

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THE FUND

SFS Real Estate Investment Trust (“the Fund”) was previously known as Skye Shelter Fund. It is a close-ended Real Estate Investment Trust (REIT) under the management of *SFS Capital Nigeria Limited* (The Fund Manager).

The Fund is primarily involved in acquiring Investment Properties which are held for capital appreciation. The units of the Fund are publicly listed on the *Nigeria Exchange Group (NGX)*. It was launched with an Initial Public Offer (IPO) of 20 million units at ₦100.00 each on 23rd July 2007. Subsequently, it became the first REIT in Nigeria to be listed on the *Nigerian Exchange Group (NGX)* on 28th February 2008.

The Fund provides opportunities for various classes of investors to pool resources together and invest in the Real Estate sector. The Net Asset Value (NAV) of the Fund as at 31st December 2023 was ₦2.6b.

The Fund is constituted by a Trust Deed executed between the Fund Manager and the Trustees. It is also subject to the regulation of the *Securities & Exchange Commission (SEC)*. Other professional parties involved in the operation of the Fund are also under the regulation of SEC.

Aside the Fund Manager, other parties to the Fund are: *Apel Capital and Trust Limited* (Trustees), *StanbicIBTC Nominees Limited* (Custodian), *PACE Registrars Limited* (Registrar), *DOC Advisory* (Auditors) and *Ubosi Eleh & Co.* (Real Estate Surveyors and Valuers).

INVESTMENT STRATEGY

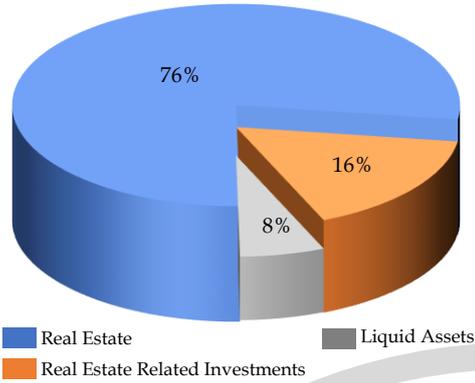
The Investment strategy is to promote diversification within the Real Estate Investment sector. The generic target weight of resource allocation for the Fund include: Real Estate (minimum of 75%), Real Estate Related Investments (maximum of 25%) and Cash (maximum of 10%).

Below is the asset allocation as at June 2024.

SUB-ASSET CLASS	TARGET WEIGHT	PERMISSIBLE RANGE
Direct Construction Projects	0% to 20%	+2.5%
Real Estate Purchased from developers	30%	+10%
Property Trading	30%	+5%
Quoted Equities (Real Estate Related)	0% to 10%	+2.5%
Money Market	5%	+2.5%
Asset Back Securities	2.5%	+2.5%
Mortgages	5%	+2.5%
Other Investments (Real Estate Related)		

Source: SFS REIT

ACTUAL DISTRIBUTION OF FUND'S ASSET (2023)



Source: SFS REIT

The Fund Assets as at 31st December, 2023 was largely concentrated in Real Estate. These Investments accounted for 76% of the Fund's Net Asset Value. The maximum cap for Real Estate in the investment strategy of the Fund is 80%. Consequently, this concentration is within the proposed Asset distribution of the Fund.

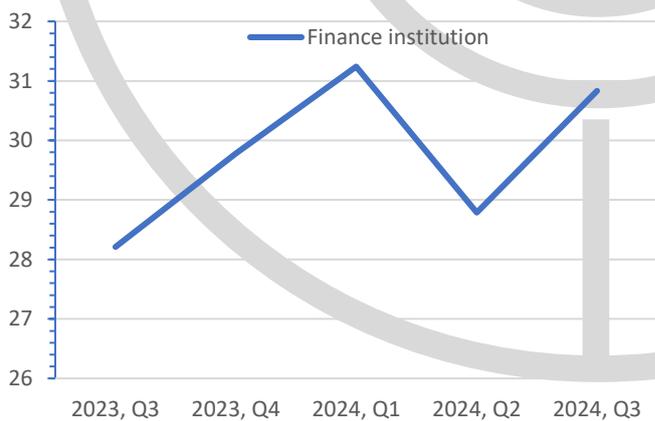
Cash. The Cash element was just 1% while the Securities component constituted 38% of the Fund's Assets. As at October 2024, investment of the Fund Assets in Securities at 38% breached the maximum cap of 20% highlighted in the proposed asset distribution.

Other significant Assets of the Fund included Investment Securities and

SECTOR REVIEW

Nigeria is one the leading economies in Africa, with a population of over 200 million people. In the third quarter of 2024, the country's Gross Domestic Product (GDP) demonstrated a real-term growth of 3.46% year-on-year, higher than the 2.54% recorded in the same quarter of 2023 and higher than 3.19% from the second quarter of 2024. Notably, the Services sector propelled this growth, contributing 53.58% to the overall GDP with a growth rate of 5.19%.

REAL FINANCIAL SECTOR YEAR-ON-YEAR GROWTH



Source: Nigeria Bureau of statistic

According to the data released by the NBS, the Finance and Insurance Sectors' growth in real terms totaled 30.83% (Q3 2024), higher by 2.62% points from the rate recorded in Q3 2023 and higher by 2.04% points from the rate recorded in Q2 2024.

Quarter-on-quarter growth of the Finance and Insurance Sectors in real terms stood at -7.73%. The contribution of the Sectors to real GDP totaled 5.51%, higher than

the contribution of 4.36% recorded in Q3 2023 by 1.15% points, and lower than 6.57% recorded in Q2 2024 by 1.06% points.

Nigeria is battling with the challenge of foreign currency scarcity arising from lower Oil receipt and limited export capacity of the Country. In order to achieve a Unified Foreign Exchange regime, the CBN collapsed the multiple exchange rate windows. This is in addition to allowing the free float of the Naira against the US dollars. The value of the Naira to the Dollar at the CBN official rate (highest) is N1,545/\$1 as at 8th January, 2025

The Monetary Policy Committee (MPC) of the CBN at its 298th meeting on 26th November 2024, voted to raise the Monetary Policy Rate (MPR) by 25bps from 27.25% to 27.50% amid soaring inflation and skyrocketing food prices. The increase in MPR was done to manage the high rate of inflation.

Headline Inflation rate for December, 2024 rose to 34.80%. This is an increase compared with November 2024 figure of 34.60%, reflecting ongoing price pressures across the Country. The rise in MPR could have the effect of limiting borrowing from Financial Institutions due to the high costs and lead borrowers to find alternative sources of finance.

The Nigerian Assets Under Management (AuM) includes over 108 operators. The product offerings in the industry could be classified into three key segments – Collective Investment Schemes (CISs), Segregated Portfolios and Alternatives. In the year 2023, Segregated Portfolios accounted for more than half of total managed Assets (57%). This was higher than 52% recorded in 2022 and higher than the more restrictive CISs (35%) and Alternatives (8%).

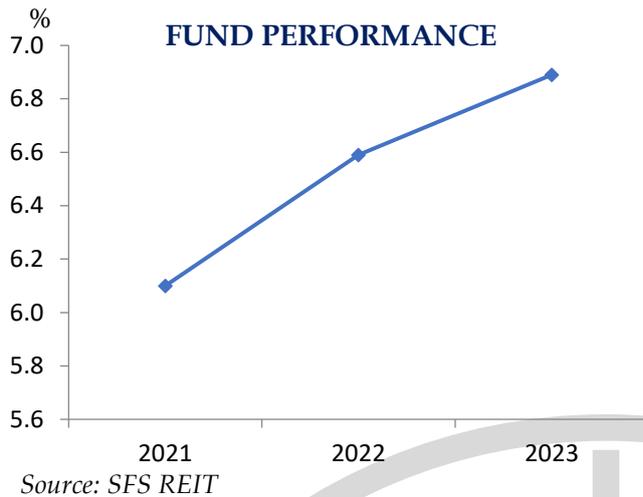
Total Assets under Management (AUM) increased by 44% to N5.9 trillion in the year 2023, driven by the growth of dollar denominated portfolios and increased participation from Retail and Institutional Investors.

The REIT (Real Estate Investment Trust) Industry is an alternative investment strategy that moves away from the traditional Debt and Equity securities to the securitization of real estate. It typically has asset distribution strategy comprising Real Estate (Minimum of 75%), Real Estate Related Investments (Maximum of 25%) and Cash (Maximum of 10%). Due to the REIT's nature of being equity based, most Nigerian REITs are listed on the NGX. The demand for residential and commercial properties due to rising urban population continue to drive investment and return in REIT.

FINANCIAL PERFORMANCE

• EARNINGS PROFILE

We reviewed the Fund's Audited Financials covering the periods between the year 2019-2023. This is in addition to its Management Account for ten months to 31st October 2024. The Fund's Earnings are generated from Real Estate Investment Management, being its primary line of business. During the year 2023, these Earnings

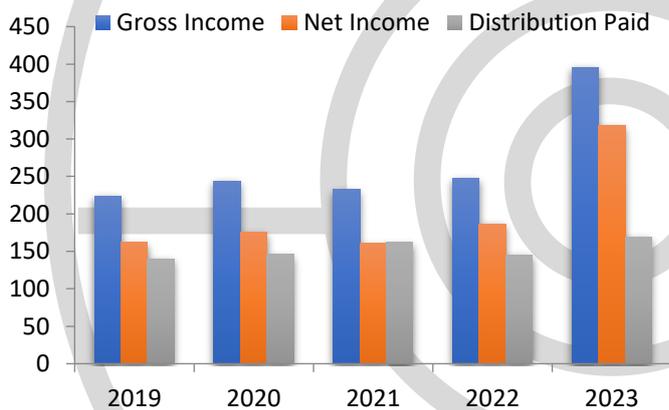


Source: SFS REIT

were categorized into Interest Income, Rental Income and Profit on disposal of Investment Property.

The Revenue from these sources amounted to ₦395.4m (Yr.23), 60% higher than the prior year's Earnings. The growth was driven majorly by a significant rise in interest income across the investment categories. It increased from ₦68.9m (Yr. 22) to ₦147.7m (Yr.23).

In the 10-Month period to October 2024, the fund recorded earnings from the gains on the sale of one of its investment properties. This accounted for approximately 28% of the Total Revenue in the period, amounting to ₦112.4m. Total Revenue amounted to ₦404.1m, higher than the Revenue recorded in full year 2023.



Source: SFS REIT

Typically, Rental Income contributed 48% of the Total Earnings of the Fund, recording ₦190.0m (Yr. 23), higher than ₦178.8m recorded in the year 2022.

Fund Expenses comprised costs relating to the Management and Administration of the Fund. It comprised Manager's fee, Audit fee, Trustee fee, repair and renovations/service charge, AGM, SEC Supervisory fee and other

general expenses. Manager's fee which was the major expense category totaled ₦38.9m (Yr. 23). In total, Operating Expenses amounted to ₦77.9m (Yr. 23), higher than ₦61.2m recorded in the year 2022.

• **FUNDING PROFILE**

The Fund Manager invested the Fund's Assets in accordance with the Trust Deed. **FGN Bonds and Investment Properties** remained the major investments in which the Funds were allocated in the year. These investments which are mostly in the long term, amounted to ₦2.5b (Yr. 23) and increased to ₦2.8b in the 10-month period ended 31st October, 2024.

Interest on Investment amounted to ₦147.7m, representing 114% growth from the prior period. As a result, Return on Investments (ROI) grew from 3% in the year 2022, to 6% in the year 2023.

Fund’s Liabilities comprised mainly Payables and Accruals falling due within a year. This amounted to ₦583.9m (Yr. 23) higher than ₦415.9m recorded in the year 2022. Other item of liabilities comprised Deferred Income of ₦122.5m recorded in the year 2023. In total, the Fund Liabilities amounted to ₦706.4m (Yr. 23).

COMPOSITION OF TOTAL ASSET

	2023	%	2022	%
Investment Properties	1,968,950,000	60	1,820,390,000	62
Cash & Cash Equivalents	755,421,000	23	559,406,000	19
Investment in Securities	574,471,000	17	575,326,000	19
Others	1,183,000	0	1,183,000	0
Total	3,300,025,000	100	2,956,365,000	100

Source: SFS REIT

The Fund primarily invested in seven properties located in Lagos, with a substantial concentration in the Lekki axis, accounting for 72% of the total asset book value, lower than 77%

concentration recorded in the prior year. As at the year-end 2023, the total value of the Investment Properties amounted to ₦2.7b, reflecting an increase from ₦2.6b (Yr. 22) as against the book value of ₦1.9b. This valuation was based on a report issued by the Estate Valuer at 14th December, 2024.

The liquid portion of the fund’s asset comprised cash and cash equivalents of ₦755.4m (Yr.23), as against ₦559.4m in the year 2022. These included balances in current accounts with Banks and short-term investments. The increase in cash balance is attributable to the proceeds on disposal of property in the year under review.

REGULATORY FRAMEWORK / OPERATION

The *Fund* is incorporated under the Laws of Nigeria and specifically, *Investments and Securities Act of 2007*.

The regulator performing oversight functions on the Fund Manager is the *Securities & Exchange Commission (SEC)*. The *Fund* is listed on the floor of the *Nigerian Exchange Limited (NGX)*. Consequently, it is subject to the Exchange rule.

The *Fund* is constituted by a Trust Deed that provides for the rights and obligations of parties to the *Fund*.

There exists in respect of the Fund, a Custodian Agreement executed by *SFS Capital Nigeria Limited, Apel Capital and Trust Limited* and *StanbicIBTC Bank Plc*.

The performance of the *Fund* is reviewed and monitored by the directors of the Fund Managers.

The directors are: *Dr. Layi Fatona, Dr. Yemi Kale, Mr. Yemi Gbenro, Mr. Patrick Ilodiana and Mr. Dimeji Sonowo.*

DIRECTOR' PROFILE

The Board comprised of individuals with considerable experience in investment management and other related business.

The profile of the Board is as follows:

- 1. Name:** Dr. Layi Fatona
Position: Chairman
Education:
 - M Sc- University of London
 - Ph. D. - University of London**Experience:**
 - Shell Petroleum Development Company (SPDC)
 - Past President, Nigerian Association of Petroleum Exploration (NAPE)
 - MD/CEO, Niger-Delta Exploration Plc**Experience (Years):**35 years

- 2. Name:** Dr. Yemi Kale
Position: Director
Education:
 - B Sc - Addis Ababa University of Ethiopia
 - M. Sc - London School of Economics
 - Ph. D. - London School of Economics**Experience:**
 - Equity Analyst, Merrili Lynch Financial Services
 - Group Head of Research, StanbicIBTC Bank
 - Special Adviser to Minister of Finance
 - Technical Adviser to Minister of National Planning
 - Presently, the statistician General of The Federation & CEO of National Bureau of Statistics

- 3. Name:** Yemi Gbenro
Position: Director
Education:
 - B. Sc - University of Lagos
 - M.Sc - University of Lagos**Experience:**
 - NAL Bank Plc
 - EIB International Bank
 - MD/CEO, SFS Financial Services**Experience (Years):**36years

- 4. Name:** Patrick Ilodiana
Position: Managing Director/CEO
Education:
 - B. Sc - University of Lagos
 - MBA - Pan-African University
 - FCA - The Institute of Chartered Accountant of Nigeria

- HCIB – Chartered Institute of Bankers of Nigeria
 - ACIT – Chartered Institute of Taxation
 - ACIS – Chartered Institute of Stock Brokers
 - GMP – Harvard Business School
- Experience:** •StanbicIBTC Bank Plc
Experience (Years):25years

- 5. Name:** Dimeji Sonowo
Position: Executive Director
Education: •B.Sc – Ogun State University, 1999
 •MBA – Manchester Business School
 •FCA – The Institute of Chartered Accountant of Nigeria
Experience: •IBTC Asset Management Ltd
 •Skye Bank Plc
Experience (Years):24years

THE FUND MANAGER TRACK RECORD

SFS Capital Nigeria Limited ("The Fund Manager") was incorporated on 25th May, 2011 and licensed as a Fund/Portfolio Manager by the *Securities and Exchange Commission (SEC)*.

The Company is a wholly owned subsidiary of *SFS Group*, the Holding Company. The Company is primarily engaged in the provision of investment products covering Mutual Funds, Structured Products and Portfolio Administration Services. Investment products offered by the Company includes Eurobonds, FGN Bonds and Treasury Bills.

The Company is the oldest Fund Manager in the Country and currently manages two Real Estate Investment Trusts (REITs). These are: *SFS REIT* and *UH REIT*. *SFS REIT* (formerly Skye Shelter Fund) is the first publicly listed REIT in Nigeria on the NGX in 2008.

Aside the Fund, the Fund Manager also manages the following: SFS Fixed Income Fund, Rivers State Reserve Fund, AMCON Advisory and Discretionary Portfolio Management with Net Asset Value of ~~₦6.9b~~, ~~₦60b~~, ~~₦35b~~ and ~~₦75m~~ respectively as at December 31, 2023.

RISK FACTORS

In the course of our review, we observed the following significant risks:

- **CREDIT RISK**

The *Fund* is principally exposed to risk of third parties’ inability to fulfill their contractual obligations. The overall quality of the Fund will be influenced by the quality of the obligors involved in the underlying investments of the Fund.

- **LIQUIDITY RISK**

The *Fund* is exposed to the risk of inability to meet its obligations as they fall due. In addition, liquidity risk may also arise where investors in the Fund could not freely exit the investment.

We have noted that the investment is freely tradable on the Exchange.

- **INTEREST RATE RISK**

This is the risk of loss to income arising from adverse movement in Interest Rate.

The *Fund* is exposed to unfavorable fluctuations in Interest Rates. This is largely due to the sensitivity of its Financial Instruments to changes in Interest Rates.

- **CURRENCY RISK**

The Fund's assets, liabilities and all transactions are denominated in Naira the functional and presentation currency and as such, the Fund is not exposed to currency risk.

- **REDEMPTION RISK**

The earnings of the Fund could be threatened in the event of mass request for redemption by subscribers. However, the Fund has redemption condition of Minimum Holding Units of 100 and a Mandatory Holding Period of 90 days.

- **CONCENTRATION RISK**

The *Fund* is heavily concentrated in the Real Estate Sector of the economy. Consequently, adverse changes in the Real Estate Sector of the economy will affect the value of the Fund and its income potentials.

CONCLUSION

We have reviewed the Investment policy. The Rating is constrained by the credit quality of non-government related securities in The Fund.

However, attention was paid to the track record of the *Fund* Manager, the Earning Profile of the *Fund* and moderate growth of the Net Assets.

Consequently, we consider The Fund an "*Investment Grade*"

Signed: 
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 19th March, 2025

For and on behalf of:
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA(f) through DD(f). Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long -term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA(f)	Lowest Risk.	<i>(Superior)</i> Assigned to funds which have superior financial strength, operating performances and profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA(f)	Lower Risk	<i>(Excellent)</i> Assigned to funds which have excellent financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion, have a very strong ability to meet their ongoing obligations.
A(f)	Low Risk	<i>(Very Good)</i> Assigned to funds which have very good financial strength, operating performance And profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion, have a strong ability to meet their ongoing obligation.
BBB(f)	Slight Risk	<i>(Fair)</i> Assigned to funds which have fair financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion, have an ability to meet their current obligations, but their

financial strength is vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator Meaning Explanation

BB(f)	Moderate Risk	<i>(Marginal)</i> Assigned to funds which have, marginal financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B(f)	High Risk	<i>(Weak)</i> Assigned to funds which have, weak financial strength, operating performance and profile when compared to the standard established by <i>DataPro Limited</i> . These funds, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC(f)	Higher Risk	<i>(Poor)</i> Assigned to funds, which have poor financial strength, operating performance and profile when compared to the standards established <i>DataPro Limited</i> . These funds, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD(f)	Highest Risk	<i>(Very Poor)</i> Assigned to funds, which have very poor financial strength, operating performance and profile when compared to the standards established by <i>DataPro Limited</i> . These funds, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.