



SFS REAL ESTATE INVESTMENT TRUST FUND



DataPro Limited

Ground Floor, Foresight House
163-165 Broad Street
By Marina Water Front
☎234-1-4605395, 4605396
Email: info@datapronigeria.net
dataprong@gmail.com
Website: www.datapronigeria.net

September, 2021

SFS REAL ESTATE INVESTMENT TRUST FUND

REIT FUND RATING REPORT

References

Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

EVALUATION

Expires: September 2022

Long Term Rating:	A ^(f)
Previous Rating	A ^(f)
Fund type:	Close Ended Real Estate Investment Trust (REIT)
Fund Size:	N2.4billion
Currency:	Naira
Fund Outlook:	Stable
Trend:	EVEN

FINANCIAL HIGHLIGHTS

	2020 N'000	2019 N'000	2018 N'000	2017 N'000	2016 N'000
Net Asset	2,405,584	2,376,446	2,354,331	2,361,513	2,333,500
Gross Income	244,324	224,164	215,276	227,373	203,053
Net Income	175,138	162,115	152,818	167,716	148,807
Distribution	162,000	146,000	140,000	160,000	140,000
Investment Property	1,775,390	1,846,390	1,878,390	1,878,390	1,930,390
Trading Portfolio	923,410	818,622	792,423	675,306	303,363

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 standards established by DataPro. This Fund, in our opinion, has strong ability to meet its ongoing obligations.

This report does not represent an offer to trade in securities. It is a reference source and not a substitute for your own judgment. As far as we are aware, this report is based on reliable data and information, but we have not verified this or obtained an independent verification to this effect. We provide no guarantee with respect to accuracy or completeness of the data relied upon, and therefore the conclusions derived from the data. This report has been prepared at the request of, and for the purpose of, our client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, DataPro and its employees accept no liability whatsoever for any direct or consequential loss of any kind arising from the use of this document in any way whatsoever.

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RATING SYNOPSIS

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

The qualitative information used was obtained from the *Fund Manager* during interview sessions with its representatives.

The quantitative information used was obtained from the *Fund Financials*.

The risk factors were assessed by considering the Credit Risk, Interest Rate Risk, Liquidity Risk, Regulatory Compliance and Operating Performance of the *Fund Manager*.

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

Strength:

- Good Credit Quality

Weaknesses:

- Legal Risk
- Concentration Risk

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THE FUND

The *SFS Real Estate Investment Trust ("The Fund")* formerly known as *Skye Shelter Fund* is designed as a close-ended *Real Estate Investment Trust (REIT)*. The Fund is managed by *SFS Capital Nigeria Limited (The Fund Manager)*.

The Fund is governed by a Trust Deed approved by the *Securities and Exchange Commission (SEC)*. The units of the Funds are listed on the floor of *Nigeria Exchange Limited (NGX)*.

SUMMARY

The Fund is a platform to pool resources from different investors interested in investing in real estate but lack adequate capital to invest directly. The Net Asset Value of the Fund as at the year end 2020 was ₦2.4b.

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Aside the Fund Manager, other parties to the Fund are: *Apel Capital and Trust Limited (Trustees)*, *Stanbic IBTC Bank Plc (Custodian)*, *PACE Registrars Limited (Registrar)* *Dele Olufon & Co. (Auditors)* and *Ubosi, Eleh & Co. (Real Estate Surveyors and Valuers)*.

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INVESTMENT STRATEGY

The Investment strategy is to promote diversification within the Real Estate Investment sector.

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The Fund seeks to invest in the following Asset classes:

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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	2.5%	+2.5%
Other Investments (Real Estate Related)	0% to 5%	+2.5%

Source: SFS REIT

FUND PERFORMANCE

The **Fund's** Total Assets grew marginally from ₦2.71b (Yr. 19) to ₦2.83b (Yr. 20). This was due to an increase in the Cash and Cash Equivalents of the Fund during the year 2020. This grew by 153% from ₦53m (Yr. 19) to ₦134m (Yr. 20). Trading Portfolio Assets also increased during the year. However, the decline in Investment Properties restrained the overall growth of Total Assets. The value of Investment Properties reduced by 5% from ₦1.84b (Yr. 19) to ₦1.7b (Yr. 20). This was due to Disposals made during the year.

SUMMARY

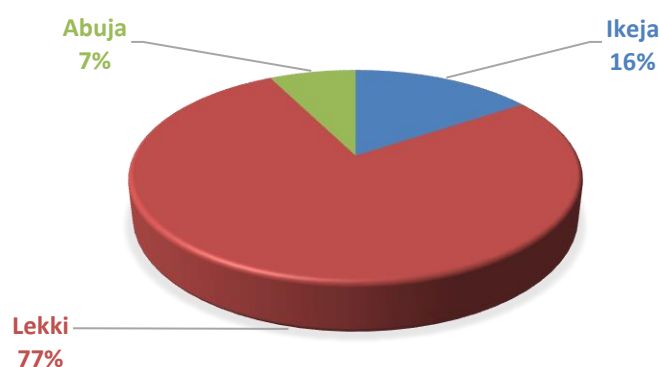
FUND ASSET ALLOCATION

ASSET CLASS	2020 ₦'000	%	2019 ₦'000	%
Investment Property	1,775,390	61	1,846,390	67
Trading Portfolio Assets	923,410	32	818,622	30
Cash & cash	134,262	5	53,605	20
Others	1,118	1	1,272	3
Total	2,834,179	100	2,719,889	100

Source: SFS REIT

Investment Property Constituted 61% of the Fund's Total Asset in the year 2020. The Fund invested majorly in Six (6) properties located in Lagos. The largest concentration of Investment Properties was in the Lekki axis of Lagos. The extent of concentration was 77% of total Book Value. The Distribution of Investment Properties by location is as presented.

INVESTMENT PROPERTY DISTRIBUTION BY LOCATION



Source: SFS REIT

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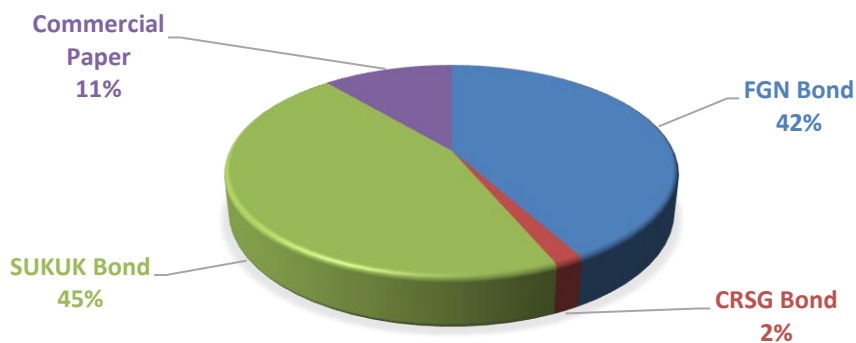
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As at the year end 2020, the total value of the Investment Properties was ₱2.3b as against its Book Value of ₱1.8b. This is based on the Valuation Report issued by the Estate Valuer as at that date.

The Fund's Trading Portfolio grew by 13% from ₱818m (Yr. 19) to ₱923m (Yr. 20). It constituted 31% of the Funds Asset. The Trading Portfolio comprises of Bonds, FGN Sukuk and Commercial Paper.

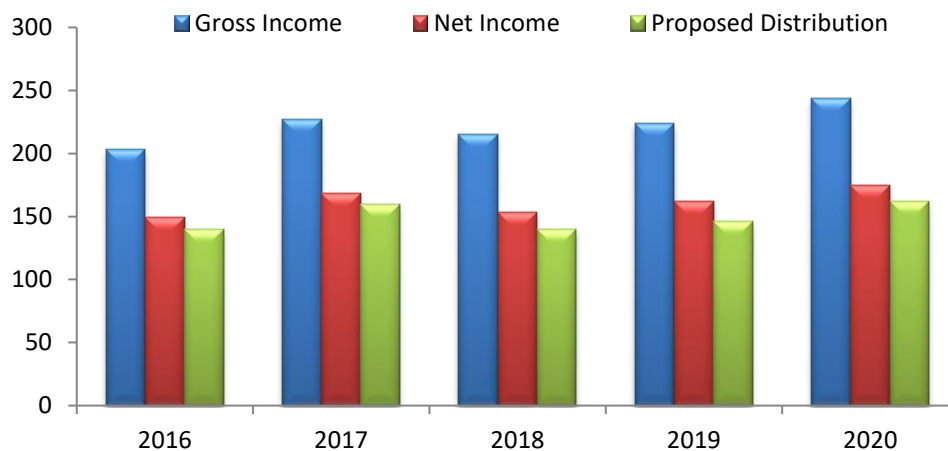
DISTRIBUTION OF TRADING PORTFOLIO



Source: SFS REIT

The Fund maintained a liquid asset of ₱253m (Yr. 20). This comprised of Commercial Papers and Cash. Unclaimed distribution amounted to ₱35m (Yr. 20). This influenced the increase in Cash from ₱53m (Yr. 19) to ₱134m (Yr. 20).

EARNING PROFILE



Source: SFS REIT

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The **Fund's** Gross Income grew during the year under review. It grew by 9% from ₦224m (Yr. 19) to ₦244m (Yr. 20). This was largely due to increased Profit on Disposal of Investment Property which increased from ₦2.8m (Yr. 19) to ₦19.8m (Yr. 20).

The Fund also made more gains on Rental Income during the year 2020. This grew from ₦92.9m (Yr. 19) to ₦96.2m (Yr. 20). However, Interest Income remained relatively same at ₦128m (Yr. 19) and (Yr. 20).

Total Operating Expenses grew by 11% during the year under review. It grew from ₦62m (Yr. 19) to ₦69m (Yr. 20). The increase was largely due to growth in amount expended on repairs of Investment Properties.

Cost to Income Ratio remained same at 28% during 2019 and 2020. However, Net Income grew from ₦162.1 (Yr. 19) to ₦175m (Yr. 20). Consequently, proposed distribution grew from ₦146m (Yr. 19) to ₦162m (Yr. 20).

RISK FACTORS

- **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.

- **Currency Risk**

The **Fund** is not exposed to investment in foreign currencies. Therefore, exposure to Currency Risk is eliminated.

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- **Interest Rate Risk**

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.

- **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.

- **Legal Risk**

The Title Document relating to all Investment Properties are yet to be perfected as at the year end 2020. Consequently, dispute relating to legal ownership on the properties may be entered against the *Fund* and impair its income generating capacity.

REGULATORY ENVIRONMENT

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*.

DIRECTORS PROFILE

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1. **Name:** Dr. Layi Fatona
Position: Chairman
Education: M Sc- University of London, 1976
 Ph. D. - University of London, 1980
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, Merrill 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):** 36 years

4. **Name:** Patrick Ilodiana
Position: Managing Director
Education:

- B. Sc - University of Lagos
- MBA - Pan-African University
- FCA - The Institute of Chartered Accountant of Nigeria

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•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): 20years

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): 19years

FUND MANAGER TRACK RECORD

The **Fund** Manager consists of experienced professionals. It has over ₦100billion under Management and Advisory.

The clients include Pension Funds, High Networth Individuals, NPOs, State Reserve Funds and Federal Government Parastatals.


The Fund Manager also manages a similar fund known as **Union Homes Real Estate Investment Trust**.

CONCLUSION

We have reviewed the Investment Policy in addition to the Fund performance. The Rating is constrained by sectorial and location concentration of the underlying Assets.

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: 29th September, 2021

For and on behalf of:
DataPro Limited
Ground Floor, Foresight House
163/165 Broad Street, Lagos Island, Lagos.
Tel: 234-1-4605395, 4605396
Cell: 0805-530-3677
Email: info@datapronigeria.net, datprong@gmail.com
Website: www.datapronigeria.net

SUMMARY

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• **Rating:**

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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+.

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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
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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.