



SKYE SHELTER FUND



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October, 2019

SKYE SHELTER FUND

SKYE SHELTER FUND RATING

References

Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

EVALUATION

Expires Aug, 2020

Long Term Rating:	A ^(f)
Previous Rating	A ^(f)
Fund type:	Close Ended Real Estate Investment Trust (REIT)
Fund Size:	₦2.4billion
Currency:	Naira
Fund Outlook:	Stable
Trend:	Down

FINANCIAL HIGHLIGHTS

	2018 N'000	2017 N'000	2016 N'000	2015 N'000	2014 N'000
Net Asset	2,354,331	2,361,513	2,333,500	2,327,693	2,285,177
Gross Income	215,276	227,373	203,053	206,840	180,404
Net Income	152,818	167,716	148,807	158,516	128,878
Distribution	140,000	160,000	140,000	143,000	116,000
Investment Property	1,878,390	1,878,390	1,930,390	2,007,261	1,700,255
Trading Portfolio	792,423	675,306	303,363	595,514	529,557

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.

SUMMARY

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A^(f)

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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*.

SUMMARY

The risk factors were assessed by considering the Credit Risk, Interest Rate Risk, Liquidity Risk, Regulatory Framework and operating performance of the *Fund Manager*.

- Rating:

A^(f)

Our review of the investment strategy of the *Fund* reveals the following:

Strengths:

- Good Credit Quality

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Weaknesses:

- Legal Risk
- Concentration Risk

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THE FUND

The *Skye Shelter Fund* ("The Fund" or "Skye Shelter Fund") is designed as a close-ended *Real Estate Investment Trust (REIT)*.

The Net Asset Value of the Fund as at the year end 2018 was N2.4b.

The Fund is a platform to pool resources from different investors interested in investing in real estate but lack adequate capital to invest directly.

SUMMARY

The Fund Manager is *SFS Capital Nigeria Limited*. *Apel Capital and Trust Limited* is the Trustees and *StanbicIBTC Bank Plc* is the Custodian.

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A(f)

Other parties to the Fund are; *PACE Registrars Limited* as the Registrar, *Dele Olufon & Co.* as the Auditors and *Ubosi, Eleh & Co.* as the Real Estate Surveyors and Valuers.

INVESTMENT STRATEGY

- Report Type:
Fund Rating

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: *Skye Shelter Fund*

FUND PERFORMANCE

The **Fund's** total assets grew marginally by 2% from ₦2.68b (Yr. 17) to ₦2.72b (Yr. 18). The marginal growth recorded was due to the reduction in cash & cash equivalents and receivable. Cash & cash equivalent dropped from ₦86.3m (Yr. 17) to ₦48.5m (Yr. 18) while receivable declined from ₦37.5m (Yr. 17) to a nil balance in 2018.

FUND ASSET ALLOCATION

ASSET CLASS	2018 ₦'000	%	2017 ₦'000	%
Investment Property	1,878,390	69.02	1,878,390	70.10
Trading Portfolio Assets	792,423	29.12	675,306	25.20
Cash & cash	48,531	1.78	86,297	3.22
Others	2,266	0.08	39,748	1.48
Total	2,721,610	100	2,679,741	100

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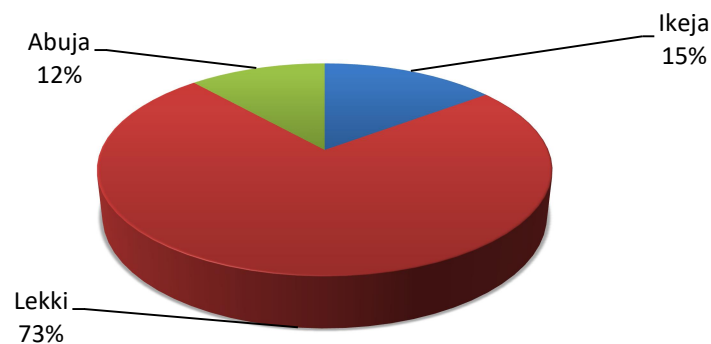
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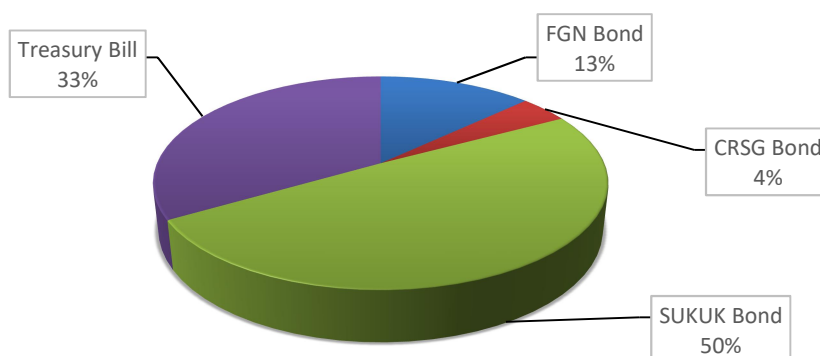
Investment Property Constituted 69% of the Fund's total asset in the year 2018. It maintained the balance of ₦1.9b in the year 2018 and 2017. The **Fund** invested majorly in properties located in Lagos. This accounted for 88% of the total investment properties in the 2018 and 2017.

INVESTMENT PROPERTY DISTRIBUTION BY LOCATION



Skye Shelter Fund trading portfolio grew by 17% from ₦675.3m (Yr. 17) to ₦792.4m (Yr. 18). It constitutes 29% of the Funds asset. The trading portfolio comprises of investment in Bonds and other financial instruments which are held as trading securities'.

DISTRIBUTION OF TRADING PORTFOLIO



SUMMARY

- Rating:

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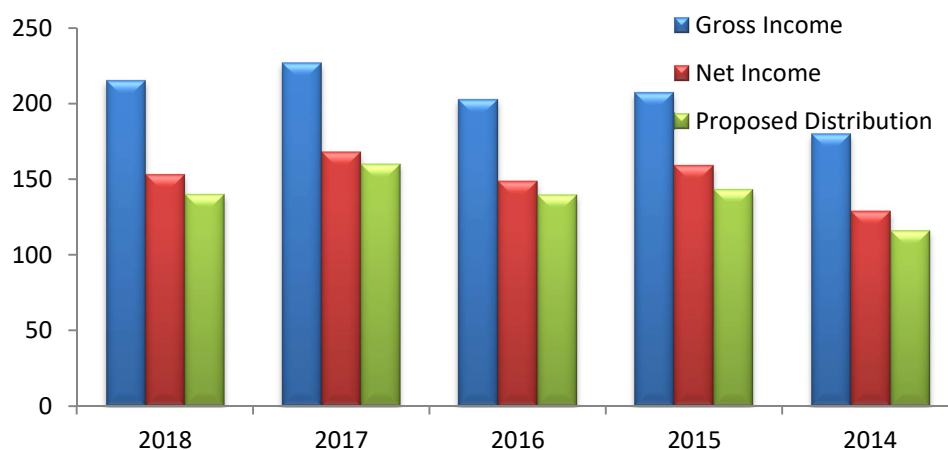
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The Fund maintained a liquid asset of ₦448.7m (Yr. 18) as against ₦413.6 (Yr. 17). This amounted to a growth of 8% in the year 2018. However, unclaimed distribution also grew by 28% from ₦236 (Yr. 17) to ₦302m (Yr. 18). This led to the growth in liabilities from ₦318m (Yr. 17) to ₦367m (Yr. 18). Consequently, cash and cash equivalents as a proportion of total liabilities dropped from 27% (Yr. 17) to 13% (Yr. 18)

EARNING PROFILE



Source: Skye Shelter Fund

The Fund's total income dropped by 5% from ₦227m (Yr. 17) to ₦215m (Yr. 18). The decline was due to the reduction in all its component in the year under review. Total income comprises of Interest income, Profit on disposal of Investment Property and Rental Income.

Total operating expenses grew by 5% in the year under review. It grew from ₦59.7m(Yr. 17) to ₦62.5m (Yr. 18). The increase was due to growth in annual report publication & dividend expenses and other expenses.

Cost to Income Ratio increased from 26% (Yr. 17 to 29% (Yr. 18).Therefore, Net income dropped from ₦167.7m (Yr. 17) to ₦152.8m (Yr. 18).

Consequently, proposed distribution reduced from ₦160m (Yr. 17) to ₦140m (Yr. 18)

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RISK FACTORS

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- **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 meets 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.

- **Interest Rate Risk**

The *Fund* is exposed to unfavourable 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.

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 Stock Exchange (NSE)*. 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

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, Merrili Lynch Financial Services

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- 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
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
- StanbicIBTC Bank Plc

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**.

SUMMARY

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**"

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SUMMARY

Signed: 
Name: **Oladele Adeoye**
Designation: Chief Rating Officer
Date: 14th October, 2019

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+.

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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 aExcellentability to meet their ongoing obligations.
AA(f)	Lower Risk	(<i>Excellent</i>) Assigned to funds which haveexcellent 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 havevery 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	(Marginal) 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	(Weak) 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	(Poor) 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	(Very Poor) 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.