

# Eppley Caribbean Property Fund Invitation Analysis: The “CliffsNotes Version”

## About the Offer

Eppley Caribbean Property Fund Limited SCC is seeking to raise \$4.5Bn by offering up to 97,448,157 ordinary shares in the capital of Its Value Fund by cross listing the shares on the JSE Main Market while simultaneously raising capital to fund its growth and diversification strategy. The funds will be used primarily to fund the purchase of commercial properties in Jamaica, Barbados and other countries in the Caribbean. If the invitation is successful and the company is able to sell all the shares on offer, then these new shares would comprise 64% of the outstanding shares in the Value Fund. The offer opens on June 28, 2019 and will close by end of day July 12, 2019.

## Company Overview



Eppley Caribbean Property Fund Limited (ECPFL) is a closed-end investment company registered with limited liability in Barbados under the provisions of the Mutual Funds Act of Barbados.

ECPFL was previously Fortress Property Fund before Eppley Fund Managers, a wholly-owned subsidiary of Eppley Limited, became the Fund Manager in May 2018 after purchasing the common shares of former fund managers - Fortress Fund Managers Limited and Altman Real Estate.

The Fund is a Segregated cell company with two classes of shares, namely, the Value Fund and the Development Fund, which are both listed on the Barbados and Trinidad & Tobago Stock Exchanges. The Value Fund currently owns a portfolio of income-producing commercial real estate in Barbados which consists of six properties, covering 269,848 square feet with an average occupancy of 90%. The average net operating income (NOI) yield of the properties is 7.8%. The Fund Manager's current strategy is to grow and diversify the portfolio of properties.

## Key Statistics

Financial Year End	Sept 30 <sup>th</sup>
Offer Price	\$46.18
LTM FFO per share	\$2.57
LTM Price/FFO* (vs Industry <sup>1</sup> )	17.9x (34.8x)
Dividend Yield (vs Industry <sup>1</sup> )	4.4% (1.9%)
NOI# Yield	7.8%
Net Asset Value per share	\$46.18
Recommendation	Participate

<sup>1</sup>Industry includes KPREIT, XFUND and EPPLEY

The company's policy is to pay out between 75% to 100% of Funds from Operations (FFO)

## Our Recommendation (PARTICIPATE)

We believe that ECPFL's offer price of \$46.18 is reasonable since its price to FFO of 17.9x is significantly below that of KPREIT's (48.3x) and XFUND's (37.9x) despite offering a higher dividend yield.

Moreover, at the offer price the stock's price to FFO is also significantly below the average (34.8x) for the industry which further highlights that the stock is relatively cheap and there is room for further growth. This combined with the fact that ECPFL's dividend yield of 4.4% is greater than KPREIT (1.3%) and XFUND (0%) formed the basis for recommending that investors PARTICIPATE in the ECPFL's invitation.

Furthermore, we view the ECPFL invitation as a good diversification play that is suitable for investors that have a long-term investment horizon and are interested in owning high-quality, income earning, diversified portfolio of commercial real estate over the Caribbean.

\*Funds From Operations (FFO) is a measure of cash flows from operations obtained by adding depreciation and amortization to earnings and removing any gains on sales

# Net Operating Income (NOI) is a measure of profitability which is equal to all revenue from the property minus all reasonably necessary operating

# Eppley Caribbean Property Fund Invitation Analysis: The “CliffsNotes Version”

## Investment Positives

- **Clear growth strategy**, through the acquisition of Regional Real Estate in the buoyant markets of Jamaica and Cayman and Guyana, which are poised for significant growth.
- **Strong History of Dividends**- ECPFL has a dividend pay-out of 75% to 100% of FFO, which equates to a 4-year average dividend yield of 5.7%. This dividend yield is significantly greater than average dividend yield of listed peers.
- **Relatively Undervalued Share Price**- Based on ECPFL’s price to FFO, the share is relatively undervalued at a price of \$46.18 and there is potential for growth in stock price as management continues to execute on its diversification and property acquisition strategy.
- **Opportunity for the long term investor to get into the Barbados Class A property market at low valuations and to participate in a diversified portfolio of Caribbean real estate with a minimum investment of \$4,618.00.**
- **Portfolio Diversification** -Eppley offers significant geographic diversification benefits when compared to other listed real estate vehicles.

## Investment Risks

- The Fund may trade below its NAV due to illiquidity as seen in Barbados where it last traded below the NAV (Invitation Price)
- Execution Risk Caused by Uncertainty of property acquisitions: The Company’s pipeline of future commercial property acquisition opportunities may not materialize as anticipated or take longer than expected to materialize slowing the flow through of earnings to the company’s bottom line.
- Natural disasters and other catastrophes can be caused by various events including, hurricanes, earthquakes and other perils. While all the properties are insured, these disasters could disrupt earnings for extended periods of time.
- Struggling Barbados Economy which could have a negative impact on the valuation existing properties in ECPFL’s portfolio.
- Fall in the Valuation of Carlisle House - Carlisle House could continue to decrease in value given the low occupancy rates.

## Financial Summary

<i>expressed in BBD\$ thousands</i>	2017	2018	% Change	Mar-18	Mar-19	% Change	LTM
NOI attributable to Value Fund Shareholders	2,445	2,450	0.2%	1,024	1,598	56.1%	3,024
Interest expense	-479	-480	0.1%	-242	-241	-0.3%	-479
Interest and other income	45	28	-37.1%	18	66	262.7%	76
Interest expense of investments accounted for using Equity Method	-140	-247	76.7%	-71	-252	256.9%	-428
FFO attributable to Value Fund Shareholders	1,872	1,752	-6.4%	729	1,171	60.5%	2,193
Comprehensive (loss)/income per year attributable to Value Fund Shareholders	1,610	-801	-149.7%	781	1,215	55.6%	-367
FFO per Value Fund Share	0.034	0.031	-8.8%	0.013	0.021	61.5%	0.039
Earnings per Value Fund Share	0.030	-0.014	-146.7%	0.014	0.022	57.1%	-0.006
NOI Interest Coverage	3.95x	3.37x		3.28x	3.24x		3.33x
Total Debt to Capital	20%	21%		20%	21.03%		NA

- The Value Fund experienced significant increases in all three key financial performance indicators so far in FY 2018-19, which will be the first full year that Eppley has managed the Value Fund.
- Specifically, net operating income (NOI), funds from operations (FFO) and earnings attributable to Value Fund Shareholders all increased by at least 50%.
- Earnings growth was largely driven by an increase in NOI attributable to Shareholders, which grew 56% to BBD\$1.60Mn.