

9 July 2020

Property | REITS

Ascendas REIT (AREIT SP)

Neutral (Maintained)

A Solid Industrial Player

Target Price (Return): SGD3.00 (-9%)
Price: SGD3.30
Market Cap: USD8,565m
Avg Daily Turnover (SGD/USD) 38.0m/27.1m

• **Keep NEUTRAL and TP of SGD 3.00, 9% downside.** Ascendas REIT remains one of the most defensive industrial REITs with its diversified portfolio and predominant exposure to the business parks sector, which is expected to stay resilient. While we continue to like it for its asset quality and management, current valuation is not attractive enough (1.5x P/BV) in our view. We recommend investors accumulate on pullbacks.

• **SME tenants account for <20% of Singapore rental income**, of which 12% comprise of F&B/retail SMEs and the remaining, industrial SMEs. Thus impact of the mandatory one-month rent rebate to be offered by REITs for qualifying SME tenants (COVID-19 Bill) is likely to be minimal. AREIT estimates the rent waivers provided to tenants so far is <SGD 20m (<2% of FY20F revenue). It has also granted about SGD3m of rent deferrals, covered by security deposits.

• **Overseas assets impact.** For its Australia portfolio, management guided that the overall impact of rent rebate is <SGD 0.5m. For UK assets, it has not offered any rent rebates but instead allowed some leases to change payments to monthly in advance instead of quarterly. For the US, rent rebate granted was minimal – USD10,000 to a small café operator in Portland. Management noted there has been no pre-termination of leases due to COVID-19 up until Jun 2020.

• **Stable occupancy with positive rent reversions expected for FY20F.** 1Q20 portfolio occupancy rose 0.8ppt QoQ to 91.7%, driven by higher demand for SG logistic assets. Management continues to expect higher logistics demand across its markets, with COVID-19 accelerating e-commerce demand. We also see demand for its key business parks segment (45% of portfolio) remaining resilient as many cater to growth industries such as biomedical, infocomm technologies and healthcare. For 1Q20, rent reversions stood healthy at 8% and management anticipates flattish rent reversion for the rest of year.

• **Acquisition of remaining stake in Galaxis likely in 2H20.** In 1Q20, AREIT announced the acquisition of a 25% stake in Galaxis from Mitsui for SGD103m. We expect the REIT to acquire the remaining 75% stake from its sponsor later this year, which should be positive to its DPU. Gearing stands comfortably at 36.2%, and even assuming full debt funding for the said acquisition, gearing is likely to stay at 38%. Management has guided that despite the recent increase in gearing limit to 50%, gearing is targeted at <40%. It plans to remain a SG-focussed REIT with the local market accounting for 60-70% assets. In terms of development assets, there is a slight delay in Grab's headquarters completion (1Q21 instead of 4Q20), while asset enhancements for The Capricorn and The Galen were completed in 1H20.

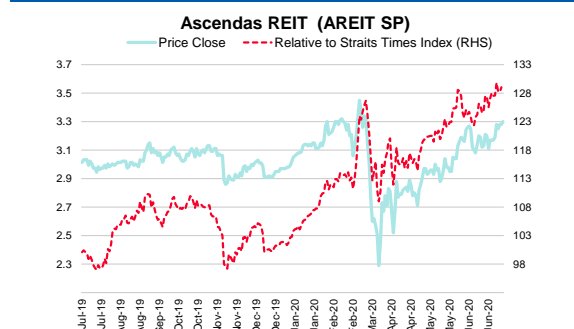
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.1	1.2	19.1	8.2	8.1
Relative	28.5	6.1	14.3	26.2	28.3
52-wk Price low/high (SGD)				2.29 – 3.45	



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	862	886	699	1,166	1,192	1,217
Net property income (SGDm)	629	650	538	818	836	855
Reported net profit (SGDm)	494	503	388	581	629	646
Total distributable income (SGDm)	438	432	323	580	595	611
DPS (SGD)	0.16	0.16	0.11	0.16	0.17	0.17
DPS growth (%)	1.5	0.3	(28.3)	43.4	2.4	2.6
P/B (x)	1.64	1.55	1.53	1.53	1.53	1.53
Dividend Yield (%)	4.8	4.9	3.5	5.0	5.1	5.2
Return on average equity (%)	8.5	8.0	5.4	7.4	8.0	8.2
Return on average assets (%)	4.8	4.6	3.1	4.2	4.5	4.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (SGD)	0.17	0.16	0.12	0.16	0.17	0.18
Property	EPS (SGD)	0.17	0.17	0.12	0.16	0.17	0.18
Ascendas REIT	DPS (SGD)	0.16	0.16	0.11	0.16	0.17	0.17
AREIT SP	BVPS (SGD)	2.01	2.13	2.16	2.16	2.16	2.16
Neutral	Return on average equity (%)	8.5	8.0	5.4	7.4	8.0	8.2
	Weighted avg adjusted shares (m)	2,871.75	3,019.67	3,364.71	3,620.89	3,625.56	3,630.26
Valuation basis							
DDM							
Key drivers	Valuation metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Diversified industrial assets expected to stay resilient in COVID-19;.	Recurring P/E (x)	19.59	20.72	28.39	20.73	19.20	18.72
ii. Good quality and a well-diversified tenant base across sectors;	P/E (x)	19.18	19.81	28.63	20.57	19.02	18.55
iii. Strong and capable sponsor.	P/B (x)	1.6	1.5	1.5	1.5	1.5	1.5
	FCF Yield (%)	4.7	5.4	4.7	6.9	7.3	7.6
	Dividend Yield (%)	4.8	4.9	3.5	5.0	5.1	5.2
	EV/EBITDA (x)	- 2.92 -	0.93 -	2.35 -	1.56 -	1.54 -	1.55
	EV/EBIT (x)	- 2.92 -	0.93 -	2.35 -	1.56 -	1.54 -	1.55
Key risks	Income statement (SGDm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Prolonged recession on the back of COVID-19 outbreak;	Total turnover	862	886	699	1,166	1,192	1,217
ii. Tenant defaults and rental pressure;	EBITDA	571	588	487	741	757	776
iii. Policy measures impacting industrial space.	Depreciation and amortisation	0	(0)	0	(0)	(0)	(0)
	Operating profit	571	588	487	741	757	776
	Net interest	(101)	(116)	(113)	(134)	(137)	(138)
	Pre-tax profit	497	517	409	611	660	678
	Taxation	(3)	(14)	(21)	(30)	(31)	(32)
	Recurring net profit	484	481	391	576	623	640
Company Profile	Cash flow (SGDm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Ascendas Real Estate Investment Trust (A-REIT) is a property trust constituted by a trust deed. A-REIT owns and invests in a diverse, income producing portfolio of business park (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.	Change in working capital	(18)	20	97	134	158	180
	Cash flow from operations	539	612	589	900	942	984
	Capex	(98)	(76)	(71)	(70)	(70)	(70)
	Cash flow from investing activities	(275)	(1,028)	(1,725)	(70)	(70)	(70)
	Dividends paid	(295)	(463)	(502)	(580)	(595)	(611)
	Cash flow from financing activities	(308)	444	1,186	(829)	(884)	(918)
	Cash at beginning of period	22	25	52	96	97	85
	Net change in cash	(44)	29	50	1	(11)	(4)
	Ending balance cash	25	52	102	97	85	81
	Balance sheet (SGDm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	25	52	96	97	85	81
	Total investments	10,119	11,144	13,361	13,431	13,535	13,639
	Total other assets	158	174	252	360	367	367
	Total assets	10,354	11,414	13,864	13,939	14,039	14,140
	Short-term debt	285	517	477	500	500	500
	Total long-term debt	2,609	3,486	4,035	4,162	4,222	4,302
	Total liabilities	3,855	4,468	5,753	5,817	5,889	5,979
	Shareholders' equity	5,890	6,642	7,810	7,821	7,849	7,861
	Minority interests	304	304	301	301	301	301
	Total equity	6,499	6,946	8,111	8,122	8,150	8,161
	Net debt	2,870	3,950	4,416	4,565	4,636	4,720
	Total liabilities & equity	10,354	11,414	13,864	13,939	14,039	14,140
	Key metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.8	2.8	(21.1)	66.8	2.2	2.1
	Recurrent EPS growth (%)	1.0	(5.5)	(27.0)	37.0	8.0	2.6
	Operating EBITDA margin (%)	66.2	66.3	69.7	63.5	63.5	63.7
	Net profit margin (%)	57.3	56.8	55.5	49.8	52.8	53.1
	Dividend payout ratio (%)	88.7	85.9	83.2	99.9	94.5	94.7
	Capex/sales (%)	11.3	8.6	10.2	6.0	5.9	5.8
	Interest cover (x)	5.20	4.64	4.01	5.07	5.04	5.09

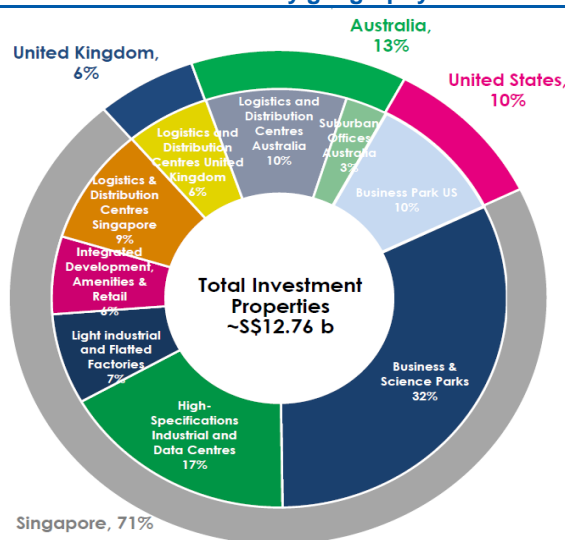
Source: Company data, RHB

Figure 1: AREIT – fair value based on Dividend Discount Model

DDM	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SG cents)	16.5	16.9	17.3	17.6	17.8	323.9
Fair value (SGD)	3.00					
Current price (SGD)	3.30					
Price upside (%)	-9.1					
Distribution yield (%)	5.0					
Total returns (%)	-4.1					
Assumptions:						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.2					

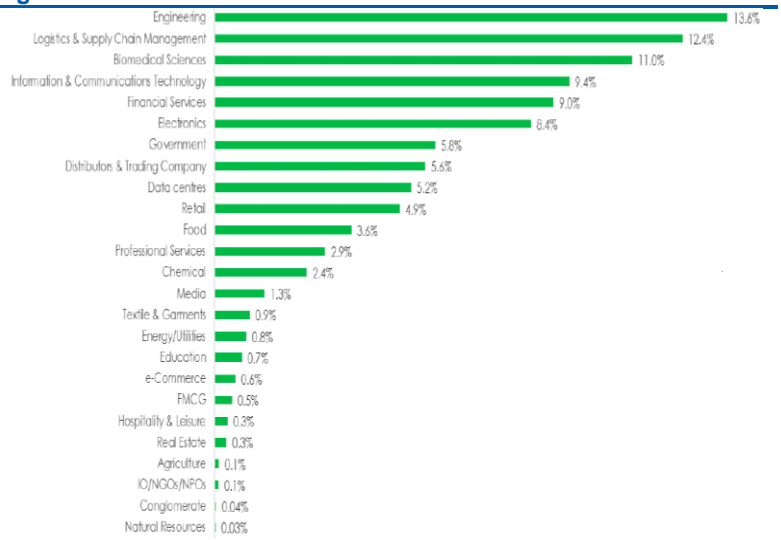
Source: RHB

Figure 2: Asset breakdown by geography and sector



Source: Company data

Figure 3: Trade sector breakdown



Source: Company data

Figure 4: Covid-19 impact update – Singapore & Australia

	Singapore	Australia
Government Measures Implemented	<ul style="list-style-type: none"> Government assistance: <ul style="list-style-type: none"> ✓ Property tax rebate (Retail/F&B/amenities: 100%, Industrial: 30%) ✓ For SMEs: additional cash grant (Retail/F&B/amenities: 0.8 months, Industrial: 0.64 months) For qualifying SMEs⁽¹⁾: <ul style="list-style-type: none"> ✓ Additional rent waiver by landlord ✓ Instalment repayment scheme for rental arrears; interest capped at 3% p.a. 	<ul style="list-style-type: none"> Mandatory code of conduct (for SMEs): landlords unable to terminate leases/draw on deposits and to offer reductions in rent (as waivers or deferrals) based on the tenant's reduction in trade during COVID-19, tenants to honour leases
Impact	<ul style="list-style-type: none"> Retail/F&B/amenities SME tenants will receive 4 months of base rent waiver, inclusive of government's property tax rebate and cash grant⁽²⁾ Qualifying industrial SME tenants will receive 2 months of base rent waiver, inclusive of government's property tax rebate and cash grant⁽³⁾ 	<ul style="list-style-type: none"> Suspended rent collection from F&B tenants (<1% of Australia portfolio by rental income) from Apr until they reopen Restructured lease of one leisure/hospitality tenant, providing rental rebate Pro-active discussions with tenants to offer assistance via existing lease incentives or rent deferral
Outlook	<ul style="list-style-type: none"> 2020 GDP forecast: -4% to -7% (source: MTI) To-date, no tenants have pre-terminated due to COVID-19 Challenging leasing environment 	<ul style="list-style-type: none"> 2020 GDP forecast: -4.5% (source: Bloomberg) To-date, no tenants have pre-terminated due to COVID-19 New leasing enquiry to remain subdued, but existing tenants may be more likely to renew than relocate on lease expiry.






(1) Eligibility criteria for qualifying SMEs include substantial drop in average monthly revenue during COVID-19 (average monthly revenue from April to May 2020 on an outlet level reduced by 35% or more, compared to April to May 2019). Source: <https://www.mlaw.gov.sg/covid-19/relief/rental-relief-framework-for-smes#eligibility>

(2) To-date 3 months disbursed; remaining to be disbursed by Sep 2020.

(3) Qualifying industrial SME tenants (based on Ascendas Reit's records) will receive 1 month of base rent waiver in Jun 2020 on top of property tax rebates. Further adjustments will be made by Sep 2020, to ensure that all qualifying industrial SME tenants will receive 2 months of base rent waiver.

Source: AREIT

Figure 5: Covid-19 impact update – the UK and US

	 United Kingdom	 United States
Government Measures Implemented 	<ul style="list-style-type: none"> Up until 30 Jun 2020, landlords are not allowed to terminate leases for any missed payments. The UK government has the option to extend this if needed. Tenants will still be liable to pay rent i.e. no rent holiday Deferment of VAT payments for Mar – Jun 2020 to the end of the financial year 	<ul style="list-style-type: none"> Landlords are not allowed to evict tenants due to non-payment of rents in Portland, Oregon (until 7 Jul 2020), San Diego, California (until 25 Sep 2020) and Raleigh, North Carolina (until 20 Dec 2020)
Impact 	<ul style="list-style-type: none"> No rent rebates given to-date Allowed some tenants to change their rental payment from quarterly to monthly in advance and some to defer rent payments to the latter part of the year, to help them with their cashflow management Defer the VAT payment by one year to Mar-21 Extending available space for short-term leases 	<ul style="list-style-type: none"> Provided rental rebate to one small café operator in Portland
Outlook 	<ul style="list-style-type: none"> 2020 GDP forecast: -7.8% (source: Bloomberg) To-date, no tenants have pre-terminated due to COVID-19 More leasing challenges expected as many interests have been aborted or put on hold. However leases in the final stages are continuing to progress 	<ul style="list-style-type: none"> 2020 GDP forecast: -5.7% (source: Bloomberg) To-date, no tenants have pre-terminated due to COVID-19 Majority of our tenants are operating with skeleton crews serving essential functions on site, with rest of staff working remotely Slowdown in leasing activity as tenants are holding back expansion plans; trend towards shorter-term extensions for near-term expiries

Source: AREIT

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-19	Neutral	3.00	2.89
2020-02-02	Buy	3.10	3.15
2019-11-04	Neutral	3.00	3.06
2019-04-30	Neutral	2.90	2.94
2018-10-26	Buy	2.90	2.52
2018-04-24	Buy	2.95	2.68

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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