

20 April 2020

Property | REITS

Ascendas REIT (AREIT SP)

Neutral (Maintained)

Defensive But Unattractive Valuation

- **Maintain NEUTRAL with a lower TP of SGD3.00 from SGD 3.10, 4% upside with c.6% yield.** AREIT's diversified portfolio of 200 industrial assets across three different geographies is expected to stay resilient despite recessionary outlook posed by the COVID-19 pandemic. Its key strengths are an experienced management team, a strong sponsor and good operational track record. While we like AREIT's asset quality and management strategy, the current valuation of 1.3x 2020F P/BV is not attractive enough.
- **We expect retail, hospitality & leisure (it accounts for 5% of gross monthly revenue) to be the most impacted segment in AREIT's portfolio.** On the positive side, we expect demand to remain strong for data centres (5.6%), logistics & supply chain management (12.2%), and bio medical sciences (11.3%). Overall AREIT's income is diversified across more than 20 sectors, with no particular segment accounting for more than 15% of income.
- **Proportion of rent deferrals likely to be low.** Singapore Government's latest measure allows all tenants (except residential) to defer rents for up to 6 months if they were impacted by COVID-19. Based on our channel checks, the proportion of industrial tenants who have requested such rent deferrals remains low (<5%) and thus we don't expect any drastic cut in near-term DPU.
- **Occupancy to remain healthy but rents could come under pressure.** About 19% of leases are due for renewal in FY20 of which 5% are single-tenanted buildings. The bulk (41%) of leases is from its business parks and science parks. Amidst current market conditions, we believe more industrial tenants will be inclined to extend their current leases at lower rents, rather than move to a new premise and incur additional capex. Overall, we expect portfolio occupancy to stay c.90% but rent reversions are likely to be in -2% to 0% range compared to +6% in FY19.
- **Balance sheet remains sound.** AREIT's gearing remains optimal at 35.1% with a healthy interest cover of 5.1x as of Dec 2019. Weighted average debt maturity stands at 4.0 years with only 8% of its total debt maturing in FY20-21F. FX risks are also mitigated, with a high level of natural hedges for Australia (73.8%), the United Kingdom (100%) and the United States (75.8%).
- **The acquisition of a 25% stake in Galaxis from sponsor, for SGD 102.9m,** at a 3% discount to valuation, with a proforma net property income (NPI) yield of 6.2%, is also yield accretive. Galaxis, located in One North Singapore, comprises a mix of business parks, office space, retail & F&B with a remaining lease-term of 52 years, is 99.6% occupied, with a WALE of 2.5 years.
- **Earnings changes.** We have lowered our FY20-22F DPU by 2% factoring in slightly lower occupancy rates and rent growth; we raised our COE to 7.2% (from 7.0%).

Target Price (Return): SGD3.00 (3.8%)
 Price: SGD2.89
 Market Cap: USD7,354m
 Avg Daily Turnover (SGD/USD): 64.8m/46.1m

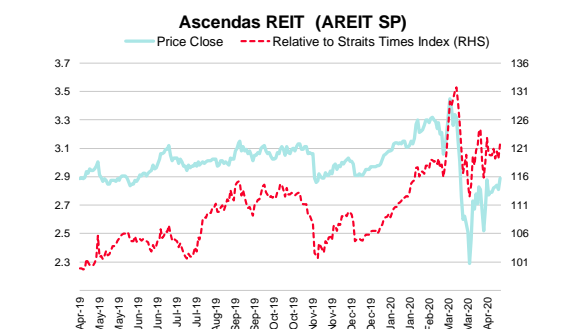
Analyst

Vijay Natarajan
 +65 6232 3872
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.7)	11.2	(8.0)	(5.9)	0.2
Relative	16.2	4.7	12.3	10.5	22.1
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)	1.44	1.35	1.34	1.34	1.34	1.34
Dividend Yield (%)	5.5	5.5	4.0	5.7	5.8	6.0
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
1. Diversified industrial assets expected to stay resilient during the COVID-19 pandemic;	Recurring P/E (x)	17.15	18.14	24.86	18.15	16.81	16.39
2. Good quality and a well-diversified tenant base across sectors;	P/E (x)	16.80	17.35	25.07	18.02	16.66	16.24
3. Strong and capable sponsor.	P/B (x)	1.4	1.4	1.3	1.3	1.3	1.3
	FCF Yield (%)	5.3	6.1	5.3	7.9	8.3	8.7
	Dividend Yield (%)	5.5	5.5	4.0	5.7	5.8	6.0
	EV/EBITDA (x)	- 4.99 -	3.04 -	5.18 -	3.57 -	3.51 -	3.47
	EV/EBIT (x)	- 4.99 -	3.04 -	5.18 -	3.57 -	3.51 -	3.47
Key risks	Income statement (SGDm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
1. Prolonged recession on the back of COVID-19 pandemic;	Total turnover	862	886	699	1,166	1,192	1,217
2. Tenant defaults and rental pressure;	EBITDA	571	588	487	741	757	776
3. 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

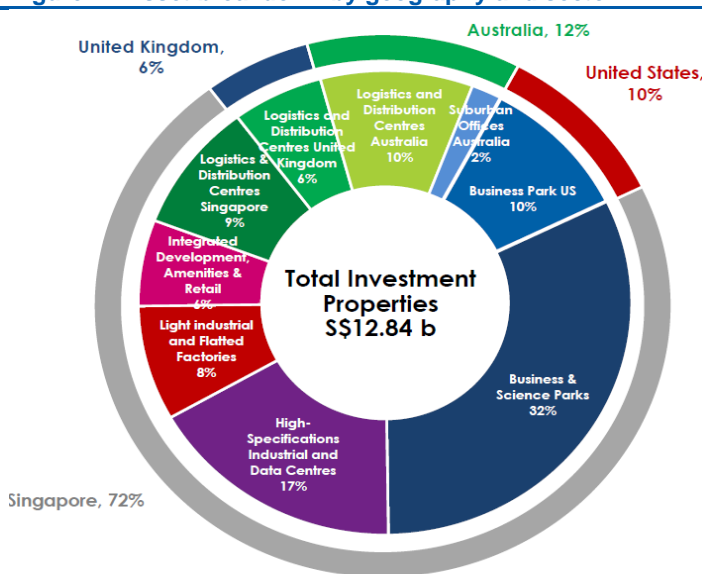
Source: Company data, RHB

Figure 1: AREIT – fair value based on DDM

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SGD cents)	16.5	16.9	17.3	17.6	17.8	323.8
Fair value (SGD)	3.00					
Current price (SGD)	2.89					
Price upside (%)	3.8					
Distribution yield (%)	5.7					
Total returns (%)	9.5					
Assumptions:						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.2					

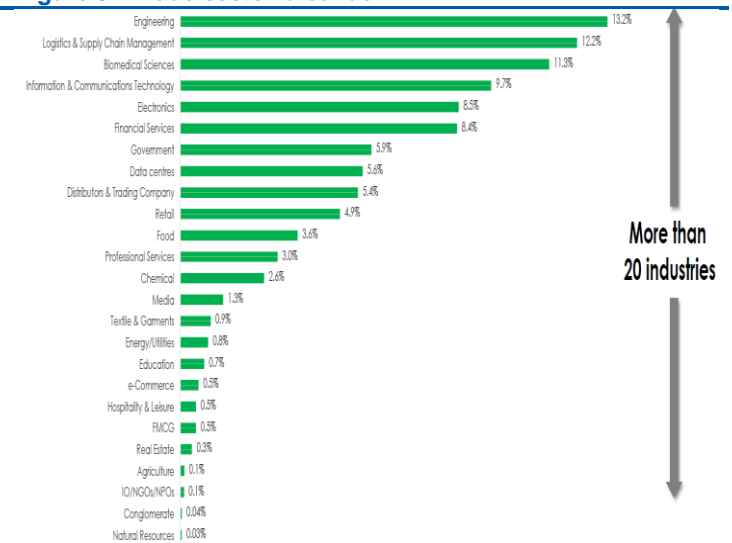
Source: RHB

Figure 2: Asset breakdown by geography and sector



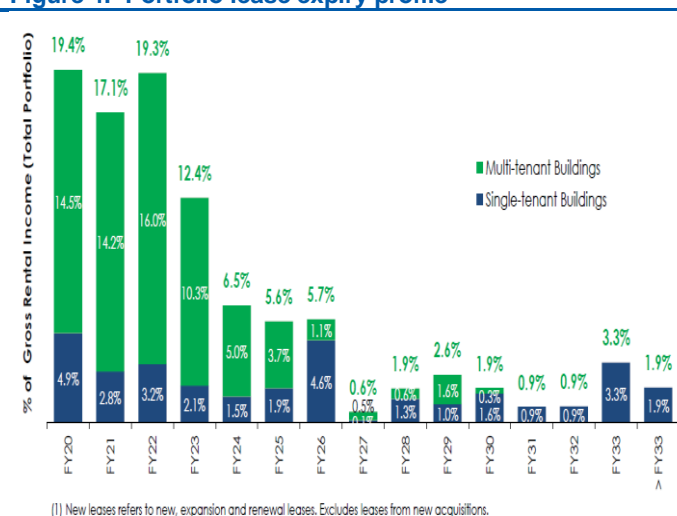
Source: Company Data

Figure 3: Trade sector breakdown



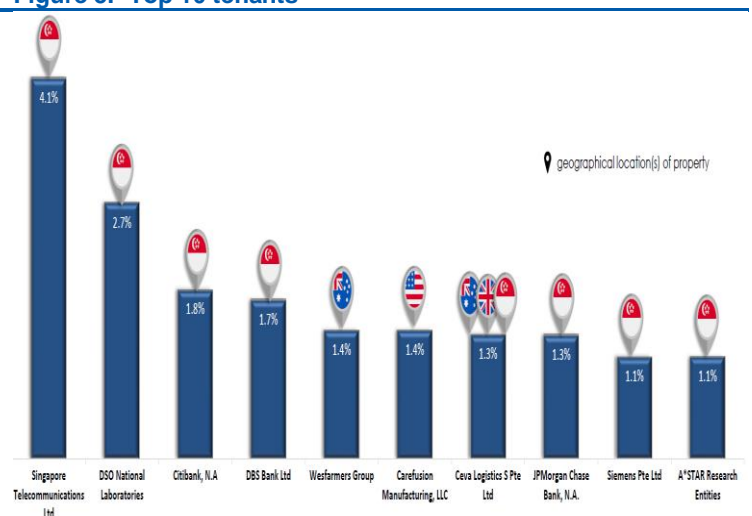
Source: Company Data

Figure 4: Portfolio lease expiry profile



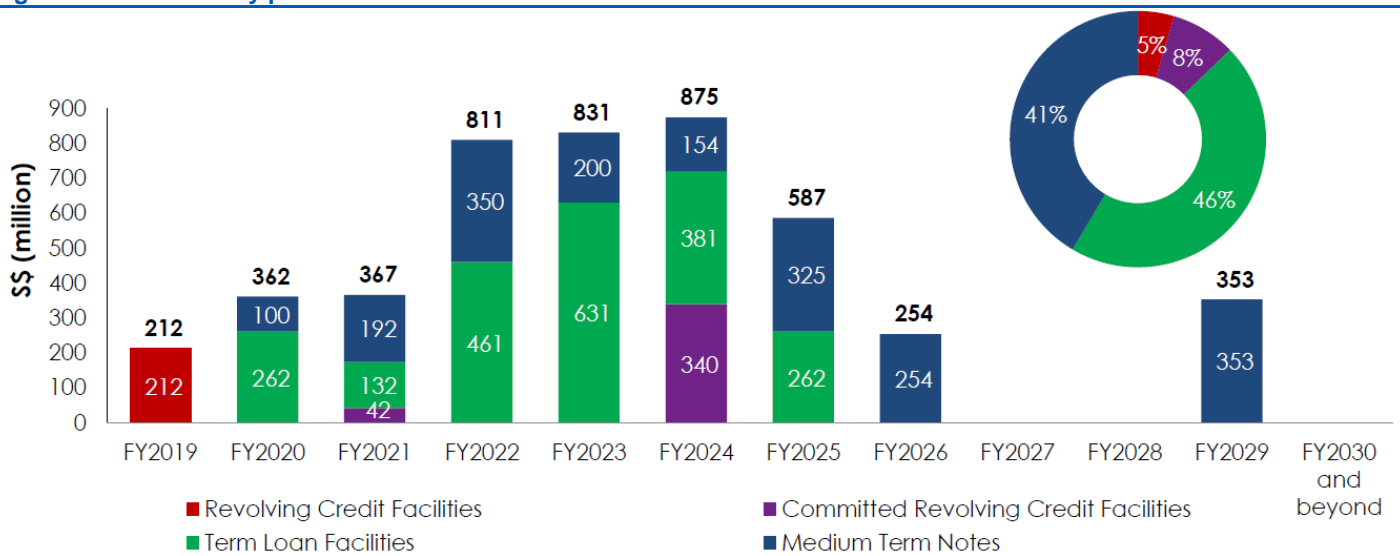
Source: Company Data

Figure 5: Top 10 tenants



Source: Company Data

Figure 6: Debt maturity profile



Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-02	Buy	3.10	3.15
2019-11-04	Neutral	3.00	3.06
2019-10-10	Neutral	3.00	3.09
2019-04-30	Neutral	2.90	2.94
2019-03-07	Neutral	2.90	2.78
2018-10-26	Buy	2.90	2.52
2018-10-16	Buy	2.90	2.45

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
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211