Singapore Company Update

10 October 2019

Property | REITs

Ascendas REIT (AREIT SP)

Neutral (Maintained)

Expanding Its Overseas Presence; NEUTRAL

Target Price (Return)	SGD3.00 (-4%)
Price:	SGD3.12
Market Cap:	USD7,004m
Avg Daily Turnover (SGD/USD)	34.1m/24.7m

- **Maintain NEUTRAL, TP raised to SGD3.00, from SGD2.90, 4% downside with c.5% yield.** AREIT's recent acquisition of an Australian suburban office, although it slightly increases the forex risks, is in-line with its diversification strategy of adding more freehold assets, with long WALE to provide income stability. Its valuation at 1.5x P/BV FY19 (Mar) looks rich, considering the challenging industrial market conditions in Singapore. We recommend investors to wait for a pullback.
- **Accretive acquisition of 254WR.** Last week, AREIT announced the acquisition of 254 Wellington Road (254WR) in Melbourne for AUD110.9m (SGD 104.4m) at par with valuation and an NPI yield of 5.8%. Assuming a 60:40 equity-debt mix, the deal will be marginally accretive to its pro-forma FY19 DPU. Nissan will be the anchor tenant (occupying 65% of space) for 10 years, with the vendor providing 3-year rental guarantee for the remaining space. The leases also have a built-in rent escalation of 3% pa. The property, which is under construction, is expected to be completed by 2Q 2020. Post-acquisition, Australia will account for 15% of its portfolio (from 14%) with Singapore at 78% accounting for the bulk and the UK with 7%. Gearing post acquisition is expected to raise marginally to c.38%, still leaving a debt headroom of c.SGD0.4bn for acquisitions (assuming 40% gearing levels).
- **SG industrial sector facing some headwinds from slowing demand.** Singapore's September Purchasing Managers' Index (PMI) reading of 49.5 (-0.4ppt mom), indicates a contraction in the manufacturing activity and is the weakest reading in more than three years. The weakening industrial demand comes on the back of increasing trade tensions and a prolonged uncertain environment. Our discussions with industrial landlords also indicate that tenants have largely become cautious, with some downsizing pressure. While the industrial sector supply is expected to see some slowdown from 2020, the challenging demand outlook is likely to keep pressure on rents. About 30% of its leases are due for renewal in FY19-20F for which we expect flattish rental reversions.
- **Synergies from CapitaLand group.** With the AREIT now being part of the larger CapitaLand group, management noted that it would tap in CapitaLand's retail expertise to increase retail options for its business parks thus enhancing its vibrancy and assets value. We believe the AREIT could also potentially leverage on the group to lower its interest cost further.
- **DPU and TP adjustments.** We have fine-tuned our FY21-22F DPU lower by 1-2% factoring in a slightly lower rental growth for the SG portfolio. We have also lowered our COE by 20bps to 7% to better reflect a prolonged low interest rate environment. AREIT will also be changing its reporting year-end to December from March by the end of this year, thus aligning it with CapitaLand's. We haven't yet factored this change in our model.

Analyst

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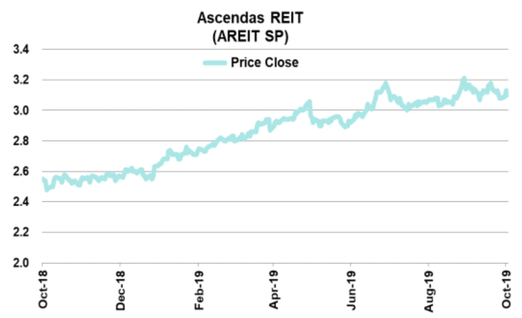
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.6	(2.2)	1.0	6.2	22.0
Relative	19.7	(0.6)	8.0	13.0	24.2
52-wk Price low/high (SGD)					2.45 – 3.23



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (SGDm)	862.1	886.2	954.0	974.5	996.9
Net property income (SGDm)	629.4	649.6	714.5	740.3	756.4
Reported net profit (SGDm)	494.1	503.1	649.1	649.6	721.8
Distributable income (SGDm)	468.0	485.7	491.8	510.5	528.6
DPS (SGD cents)	16.0	16.0	16.3	16.7	16.9
DPS growth (%)	1.5	0.3	1.4	2.6	1.4
P/BV (x)	1.5	1.5	1.4	1.4	1.4
Dividend Yield (%)	5.1	5.2	5.2	5.4	5.4
Return on average equity (%)	8.0	7.6	9.3	9.1	9.8
Return on average assets (%)	4.8	4.4	5.6	5.5	6.0
Interest coverage (x)	5.4	4.7	5.0	5.0	5.0

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Property
Ascendas REIT
Bloomberg AREIT SP

Valuation basis

We use DDM:
i. CoE of 7.0%;
ii. Risk-free rate of 2.75%;
iii. 1.5% terminal growth.

Key drivers

i. Continued fund flows into yield instruments;
ii. Yield-accretive acquisitions and divestments.
iii. Growth opportunities from asset enhancements.

Key risks

i. Persistent slowdown in manufacturing demand;
ii. SG losing its competitive manufacturing hub status to neighbouring countries; and
iii. Non-renewal of land leases.

Company Profile

Ascendas REIT is a real estate investment trust listed on Singapore Exchange Securities Trading Limited. It is Singapore's first and largest listed business space and industrial Real Estate Investment Trust ("REIT") with a portfolio diversified across five major segments of the business space and industrial property market.

Financial summary	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Recurring EPS (SGD)	0.17	0.16	0.21	0.21	0.23
EPS (SGD)	0.17	0.16	0.21	0.21	0.23
DPS (SGD)	0.16	0.16	0.16	0.17	0.17
BVPS (SGD)	2.01	2.09	2.15	2.20	2.27
Weighted avg adj shares (m)	2927	3026	3118	3122	3126

Valuation metrics	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Recurring P/E (x)	18.4	19.2	14.9	14.9	13.5
P/E (x)	18.4	19.2	14.9	14.9	13.5
P/B (x)	1.5	1.5	1.4	1.4	1.4
FCF Yield (%)	4.8	5.7	7.2	7.2	7.6
Dividend Yield (%)	5.1	5.2	5.2	5.4	5.4
EV/EBITDA (x)	19.1	21.8	19.6	19.7	19.7
EV/EBIT (x)	19.1	21.8	19.6	19.7	19.7

Income statement (SGDm)	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Total turnover	862	886	954	974	997
Gross profit	629	650	715	740	756
EBITDA	593	592	659	685	701
Depreciation and amortisation	0	0	0	0	0
Operating profit	593	592	659	685	701
Net interest	(101)	(116)	(120)	(124)	(126)
Income from associates & JVs	1	0	0	0	0
Exceptional income - net	0	0	0	0	0
Pre-tax profit	497	517	664	664	0
Taxation	(3)	(14)	(14)	(14)	(14)
Minority interests	0	0	0	0	0
Recurring net profit (adj)	468	486	507	521	529

Cash flow (SGDm)	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Change in working capital	(17.6)	19.7	79.4	50.2	73.0
Cash flow from operations	538.9	612.4	750.4	747.2	786.2
Capex	(97.6)	(76.5)	(50.0)	(50.0)	(50.0)
Cash flow from investing activities	(275.1)	(1027.8)	(129.0)	(50.0)	(50.0)
Dividends paid	(294.6)	(463.1)	(491.8)	(510.5)	(518.6)
Cash flow from financing activities	(308.1)	444.4	(635.2)	(692.6)	(681.6)
Cash at beginning of period	22.0	25.0	52.3	38.5	43.2
Net change in cash	(44.3)	29.1	(13.8)	4.6	54.6
Ending balance cash	25.0	52.3	38.5	43.2	97.8

Balance sheet (SGDm)	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Total cash and equivalents	25	52	39	43	98
Tangible fixed assets	10119	11144	11451	11615	11839
Intangible assets	0	0	0	0	0
Total investments	10119	11144	11451	11615	11839
Total other assets	210	218	91	94	96
Total assets	10354	11414	11580	11752	12033
Short-term debt	1104	825	542	540	548
Total long-term debt	2609	3486	4075	4095	4155
Other liabilities	961	465	388	387	394
Total liabilities	3855	4468	4763	4782	4849
Shareholders' equity	6194	6642	6817	6971	7184
Minority interests	304	304	304	304	304
Total equity	6499	6946	6817	6971	7184
Net debt	3746	4539	4356	4412	4417
Total liabilities & equity	10354	11414	11580	11752	12033

Key metrics	Mar 18	Mar19	Mar20F	Mar 21F	Mar 22F
Revenue growth (%)	3.8	2.8	7.6	2.1	2.3
Recurrent EPS growth (%)	13.9	(4.3)	28.8	(0.1)	11.0
Gross margin (%)	73.0	73.3	74.9	76.0	75.9
Operating EBITDA margin (%)	68.7	66.8	69.1	70.3	70.4
Net profit margin (%)	50.8	48.8	51.6	52.4	52.0
Dividend payout ratio (%)	100.0	100.0	100.0	100.0	100.0
Capex/sales (%)	12.4	9.6	5.8	5.6	5.5
Interest cover (x)	5.4	4.7	5.0	5.0	5.0

Source: Company data, RHB

Figure 1: AREIT – fair value based on DDM

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SGD cents)	16.2	16.7	16.9	17.4	17.6	324.6
Fair value (SGD)	**3.00**					
Current price (SGD)	3.12					
Price upside (%)	-4.0					
Distribution yield (%)	5.2					
Total returns (%)	1.7					
Assumptions:						
Risk-free rate (%)	2.75					
Beta	0.8					
Cost of equity (%)	7.0					

Source: RHB

Figure 2: 254 Wellington road

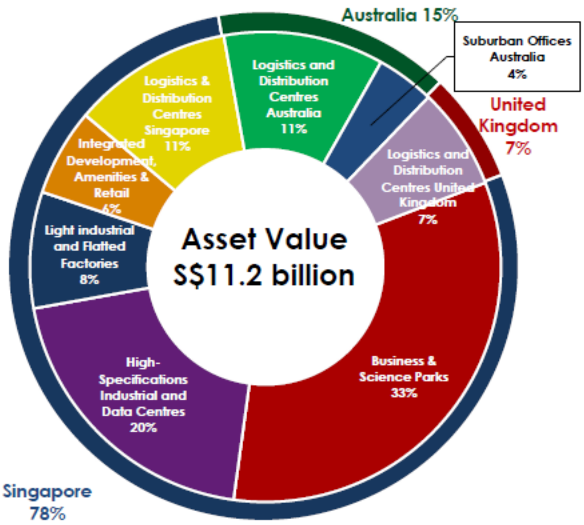
Source: Company

Figure 3: Property details

Land and Development Costs [1][2]	A$110.9 million (S$104.4 million)
Stamp Duty, Acquisition Fee[3] & Other Transaction Costs	A$1.3 million (S$1.2 million)
Total Investment Costs	A$112.2 million (S$105.6 million)
Vendor	ESR FPA (Wellington Road) Pty Limited
"As if Complete" Valuation [4]	A$110.9 million (S$104.4 million)
Land Area	11,113 sqm
Land Tenure	Freehold
Net Lettable Area	17,507 sqm
Occupancy Rate (upon completion)[5]	100%
Estimated Practical Completion	2Q 2020

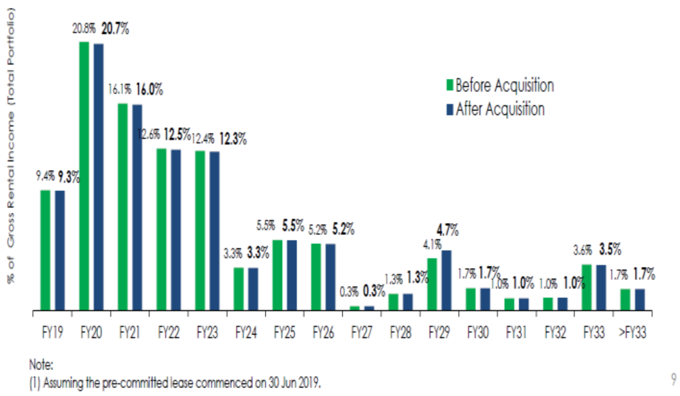
Source: Company

Figure 4: Asset value by geography (post acquisition)



Source: Company Data

Figure 5: Portfolio lease expiry profile (post acquisition)



Source: Company Data

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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