

8 May 2024

Property | REITS

AIMS APAC REIT (AAREIT SP)

Buy (Maintained)

Continues To Ride The Logistics Wave; BUY

Target Price (Return): SGD1.46 (14.6%)
 Price (Market Cap): SGD1.27 (USD763m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.15m/0.85m

- **Maintain BUY, new SGD1.46 TP from SGD1.48 (15% upside), c.8% FY25F (Mar) yield.** AIMS APAC REIT's 2H/FY24 DPU fell short of our estimates on higher financing costs and management fees in cash. The key highlight continues to be its stellar portfolio rent reversions for logistics assets, which are expected to continue, albeit at a moderate pace (FY25F) with stable occupancy. Asset enhancement contributions should start to kick in later this year. AAREIT remains the best proxy for the Singapore logistics sector's growth, coupled with stable long-term income from Australia.
- **Strong rent reversions** for 4Q/FY24 of 32%/24% were primarily driven by its Singapore logistics & warehouse portfolio which continues to benefit from strong market rent growth and its under-rented nature. For FY25, over half of its 18% of leases expiring are from logistics assets. Management guided that rental reversions will be in high single digits to low double digits. Portfolio occupancy dipped QoQ (-0.3ppts) but remains high at 97.8% due to temporary vacancy and is expected to be backfilled in the coming quarters.
- **Ongoing redevelopment of two assets; ROI of 7-8% expected.** AAREIT has secured a 15-year master lease with a storage and information management company and will be upgrading an existing warehouse to meet GreenMark Gold Plus certification. Leasing is expected to commence by 1QFY26. The second asset involves repositioning an industrial building. The REIT is in advanced negotiations with a global precision engineering and technology group for a new long-term lease for one-third of the building. The total cost of c.SGD32m for upgradation will be funded via last year's fund raising.
- **Low gearing provides buffer for potential redemption of perpetual securities (perps).** AAREIT has two perps outstanding for a total of SGD375m, with the first reset date being Aug 2025 for SGD125m of the perps. With low gearing of 32.6%, AAREIT has some buffer to redeem the perps with debt if needed, while keeping gearing below 40%.
- **FY24 DPU declined 6% YoY** despite NPI growth of 7% YoY, mainly due to the larger unit base (from its SGD100m equity fund raising in 2QFY24) and higher financing costs. Valuation declined 1.3% YoY (SGD29m) as gains from its Singapore portfolio were more than offset by declines in Australian assets due to the cap rate expansion. Financing cost rose 10bps QoQ to 4.1%, and for FY25, we expect it to remain at low 4% levels.
- **We lower FY25-26F DPU estimates by 2-3%,** factoring in higher interest cost assumptions and pushing back contribution from asset enhancements. As AAREIT's ESG score of 3.3 is above the country median, a 4% ESG premium has been embedded to our DDM-derived TP.

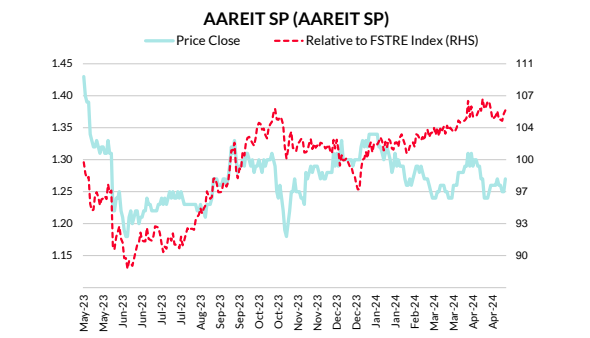
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.3)	(3.1)	(1.6)	0.0	(9.3)
Relative	9.3	(0.3)	3.1	4.9	7.6
52-wk Price low/high (SGD)	1.18 - 1.43				



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: GOOD

AAREIT has committed to a 42% reduction in scope 2 emissions by FY30 (from FY20 base). Half of AAREIT's Singapore portfolio by NLA is BCA Green Mark-compliant while Optus Centre has achieved a 5-star NABERS rating. Ongoing installation of solar system atop six properties which will generate ~14,500 MWh of energy/year.

S: EXCELLENT

Diverse workforce with Women accounting 62% of employees and accounted for 59% of new hires. Women also held 43% of senior management and 20% of board representation. Regular review of tenants' satisfaction survey and reviewed responses to improve customer experience.

G: EXCELLENT

The REIT has been highly transparent in its disclosures and has a good independent board committee. Majority independent board including one female independent director.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (SGDm)	167	177	181	185	188
Net property income (SGDm)	123	131	133	136	138
Reported net profit (SGDm)	115	61	112	116	122
Total distributable income (SGDm)	72.3	72.9	77.2	78.4	81.5
DPS (SGD)	0.10	0.09	0.09	0.10	0.10
DPS growth (%)	6.6	(8.5)	2.9	1.2	3.5
P/B (x)	0.92	0.95	0.98	0.98	0.98
Dividend Yield (%)	7.9	7.3	7.5	7.6	7.8
Return on average equity (%)	11.5	6.0	10.5	11.0	11.4
Return on average assets (%)	4.8	2.6	4.8	5.0	5.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Singapore	Recurring EPS (SGD)	0.16	0.08	0.14	0.14	0.15
Property	EPS (SGD)	0.16	0.08	0.14	0.14	0.15
AIMS APAC REIT	DPS (SGD)	0.10	0.09	0.09	0.10	0.10
AAREIT SP	BVPS (SGD)	1.39	1.34	1.30	1.30	1.30
Buy	Return on average equity (%)	11.5	6.0	10.5	11.0	11.4
	Weighted avg adjusted shares (m)	717.37	790.97	814.00	817.07	820.18
Valuation basis	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
DDM	Recurring P/E (x)	8.00	15.97	9.25	8.93	8.57
	P/E (x)	7.96	16.34	9.25	8.93	8.57
Key drivers	P/B (x)	0.9	0.9	1.0	1.0	1.0
i. High quality industrial assets in Singapore and Australia with the majority being logistic assets;	FCF Yield (%)	11.7	11.3	5.1	9.0	11.1
ii. Proven track record on asset redevelopments and enhancements;	Dividend Yield (%)	7.9	7.3	7.5	7.6	7.8
iii. A good balance of long master lease and multi-tenant assets.	EV/EBITDA (x)	- 6.13	- 5.32	- 4.69	- 4.60	- 4.57
	EV/EBIT (x)	- 6.13	- 5.32	- 4.69	- 4.60	- 4.57
Key risks	Income statement (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
i. Refinancing of Upcoming Perpetual Securities;	Total turnover	167	177	181	185	188
ii. Shorter land-lease for industrial assets in Singapore;	EBITDA	100	114	116	118	120
iii. Rising interest rates and recessionary risks.	Operating profit	100	114	116	118	120
	Net interest	(33)	(35)	(33)	(31)	(28)
	Income from associates & JVs	16	(25)	18	18	19
	Exceptional income - net	0	1	0	0	0
	Pre-tax profit	113	55	120	125	130
	Taxation	2	7	(8)	(9)	(9)
	Recurring net profit	114	63	112	116	122
Company Profile	Cash flow (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
AIMS APAC REIT is a real estate investment trust listed on the Mainboard of the Singapore Exchange Securities Trading Limited with the investment mandate to invest in high quality income-producing industrial real estate throughout Asia Pacific.	Change in working capital	(2)	(3)	(18)	1	1
	Cash flow from operations	110	118	102	123	125
	Capex	(3)	(4)	(50)	(30)	(10)
	Cash flow from investing activities	7	20	(38)	(17)	3
	Dividends paid	(90)	(95)	(98)	(99)	(81)
	Cash flow from financing activities	(123)	(133)	(62)	(105)	(132)
	Cash at beginning of period	21	13	18	20	21
	Net change in cash	(7)	5	2	1	(3)
	Ending balance cash	14	18	20	21	18
	Balance sheet (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total cash and equivalents	27	18	20	21	18
	Total investments	2,290	2,281	2,282	2,290	2,319
	Total other assets	12	9	9	9	9
	Total assets	2,336	2,317	2,319	2,329	2,354
	Short-term debt	0	100	131	135	128
	Total long-term debt	791	588	595	596	618
	Total liabilities	969	882	886	895	916
	Shareholders' equity	994	1,061	1,059	1,061	1,065
	Total equity	1,367	1,434	1,433	1,434	1,438
	Net debt	764	669	706	710	728
	Total liabilities & equity	2,336	2,317	2,319	2,329	2,354
	Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Revenue growth (%)	17.6	5.9	2.1	2.0	1.8
	Recurrent EPS growth (%)	8.6	(49.9)	72.7	3.6	4.2
	Operating EBITDA margin (%)	59.9	64.4	63.8	63.9	63.9
	Net profit margin (%)	68.4	34.7	61.8	63.0	64.7
	Dividend payout ratio (%)	63.1	118.6	69.1	67.5	67.0
	Capex/sales (%)	1.8	2.4	27.5	16.2	5.3
	Interest cover (x)	3.01	3.24	3.50	3.75	4.18

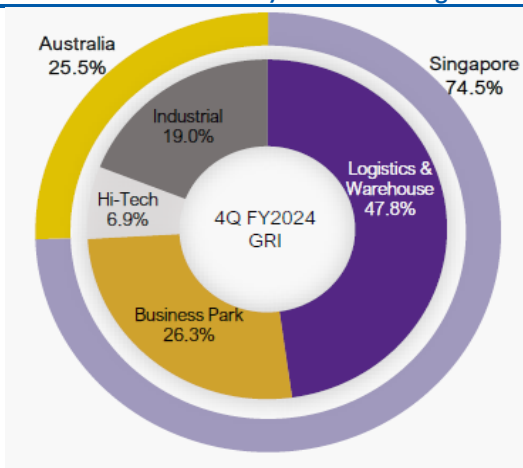
Source: Company data, RHB

Figure 1: DDM valuation

	FY25F	FY26F	FY27F	FY28F	FY29F	Terminal value
DPU (SG cents)	9.49	9.60	9.93	10.03	10.06	151.9
Fair value (SGD)	1.40					
ESG premium/(discount)	0.06					
TP	1.46					
Current price (SGD)	1.27					
Price upside (%)	14.6					
Distribution yield (%)	7.5					
Total return (%)	22.1					
Assumptions						
Risk-free rate: (%)	2.8					
Beta	1.0					
Cost of equity (%)	8.3					
Terminal growth: (%)	1.5					

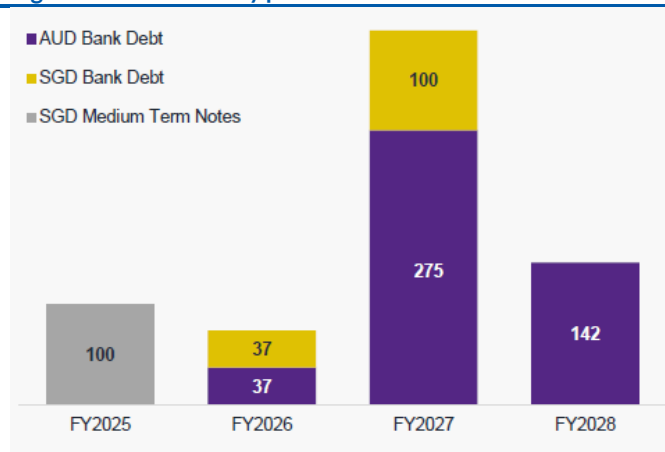
Source: Company data, RHB

Figure 2: Portfolio rental mix by market and segments



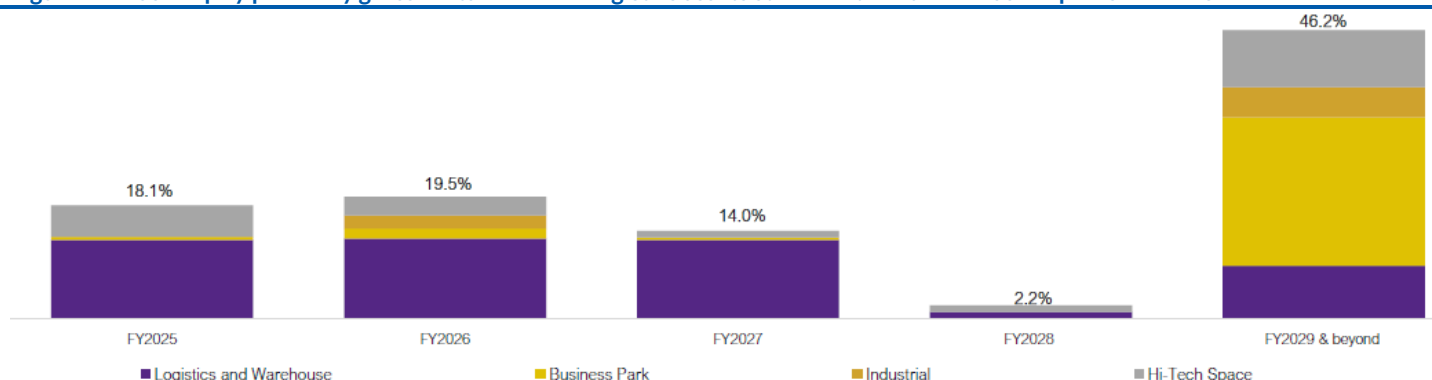
Source: Company Data

Figure 3: Debt maturity profile - total SGD691m



Source: Company Data

Figure 4: Lease expiry profile by gross rental income - logistics assets still form the bulk of lease expiries for FY25F



WALE by Sub-Sectors (years)

Portfolio WALE	Logistics & Warehouse	Business Park	Industrial	Hi-Tech
5.1	2.6	7.6	3.3	6.0

Source: Company data

Emissions And ESG

Trend analysis

In FY23, the total building GHG emissions of AA REIT's properties were 3,344 tonnes of CO2 equivalent, a 364 tonnes decrease from 3,708 tonnes CO2e in FY2022. Average building GHG emission intensity reduced by 9.8% from 54.3 kgCO2e/m2 to 49.0 kgCO2e/m2 over the same period.

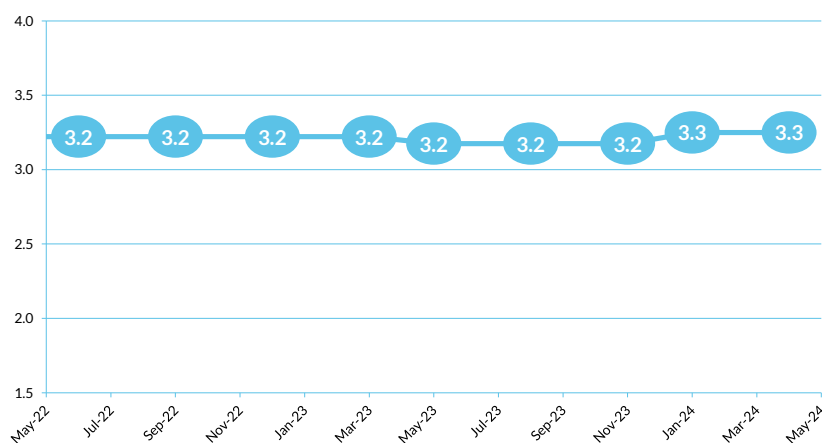
Emissions (tCO2e)	Mar-22	Mar-23	Mar-24
Scope 1	na	na	na
Scope 2	3,709	3,344	na
Scope 3	na	na	na
Total emissions	3,709	3,344	na

Source: Company data, RHB

Latest ESG-Related Developments

- In FY23, AAREIT concluded a carbon baselining study for its portfolio with respect to properties under its operational control and committed to a science-based target of a 42% reduction in scope 2 emissions by FY30 (from FY20 base year).
- AAREIT plans to commence installation of energy efficient fittings and equipment at 20 Gul Way and 135 Joo Seng in FY24.
- Progressively install water efficient fittings certified under the PUB's Water Efficiency Labelling Scheme (or equivalent) for toilets.
- Its medium-term target is to generate 15,000 MWh of solar energy per year and have 45% of total tenants on green leases by FY25.
- It also plans to actively engage tenants for the collection of scope 3 emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-01	Buy	1.48	1.29
2024-01-08	Buy	1.48	1.32
2023-11-05	Buy	1.47	1.25
2023-08-20	Buy	1.47	1.22
2023-05-07	Buy	1.55	1.40
2023-01-26	Buy	1.50	1.36
2022-10-27	Buy	1.48	1.24
2022-04-27	Buy	1.66	1.42
2021-10-06	Buy	1.72	1.43
2021-07-08	Buy	1.70	1.53
2021-05-05	Buy	1.58	1.39
2021-04-08	Buy	1.55	1.35

Source: RHB, Bloomberg

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Analyst	Company
-	-

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