

21 September 2022

Property | REITS

Ascendas REIT (AREIT SP)

Buy (Maintained)

Boosting Its Singapore Asset Mix; BUY

Target Price (Return): SGD3.60 (+28%)
 Price (Market Cap): SGD2.82 (USD8,405m)
 ESG score: 3.33 (out of 4)
 Avg Daily Turnover (SGD/USD) 28.5m/20.5m

- **Maintain BUY and TP of SGD3.60, 28% upside with c.6% FY22F yield.**

Ascendas REIT's recent yield-accretive acquisition of two good quality Singapore assets adds resilience to its portfolio, with further room for upside. Overall metrics are trending in the right direction, with higher occupancy and double-digit rental rate reversions (recorded in 2Q) – this is expected to continue in 2H and outpace cost pressures. The impact of rising interest rates on borrowing cost is manageable, at -2% for every 100bps increase. This stock remains our sector Top Pick.

- **Maiden foray into promising Singapore cold storage logistics sector**

via the proposed third-party acquisition of 1 Buroh Lane, a modern Grade-A 5-storey cold storage ramp-up logistics facility. The asset has 21 years left on its lease, while the purchase price of SGD191.9m (reflecting a 2% discount on its latest valuation) translates into an attractive 7% NPI yield. It is fully occupied by five well-established tenants, with a long WALE of seven years, and built-in rental rate escalations of 2-3% every three years. We see this asset as a good fit for its portfolio, as it offers good long-term growth potential, with strong demand for cold storage logistics facilities outpacing the limited supply in the market. The asset is also well located – it is close to major sea ports, Jurong Port and Tuas Mega Port, and benefits from the megatrend of Singapore's focus on long-term food security.

- **Acquisition of Phillips APAC Centre** for SGD104.8m, at a 6% discount to the asset's latest valuation, with an initial NPI yield of 7.2%(pre-transaction costs).

The high-tech campus serves as the Asia-Pacific headquarters for Phillips, which will rent back c.66% of the space on a multi-year lease. The overall occupancy rate of the asset stands at 95.7%, from a total of four tenants and a WALE of 4.5 years. We expect its occupancy rate to pick up in the near term, in view of the asset's central location within Toa Payoh town, along with the potential for positive rental rate reversions.

- **To be funded by debt and DPU accretion of 1%.** With these acquisitions

AREIT's YTD acquisitions amount to SGD520m, ie about 50% of managements guidance of c.SGD1bn for the full year – which indicates that there may be more new assets to come in 4Q. Singapore will account for c.62% of assets by value, with the rest of the markets being the US (15%), the UK (14%) and Australia (9%). Its post-acquisition gearing remains comfortable at c.37%, providing c.SGD1bn in debt headroom (assuming a 40% cap). Both the acquisitions are expected to be completed by 4Q.

- **We lift FY22-23F DPU by c.1% to factor in the acquisitions.** AREIT has

the highest ESG score of 3.3 out of 4.0, among the industrial REITs (based on our proprietary in-house methodology). As this score is three notches above our country median, we applied a 6% premium to our intrinsic value to derive our TP.

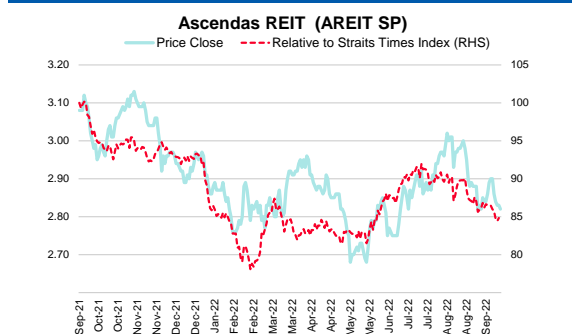
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.4)	(5.4)	2.5	(2.8)	(8.5)
Relative	(8.6)	(5.7)	(2.7)	(0.6)	(15.6)
52-wk Price low/high (SGD)	2.68 – 3.13				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,328	1,362	1,413
Net property income (SGDm)	776	921	1,011	1,034	1,062
Reported net profit (SGDm)	457	957	768	601	614
Total distributable income (SGDm)	431	455	512	533	541
DPS (SGD)	0.15	0.15	0.16	0.17	0.17
DPS growth (%)	26.3	3.9	5.8	3.1	1.3
P/B (x)	1.16	1.17	1.18	1.18	1.18
Dividend Yield (%)	5.2	5.4	5.7	5.9	6.0
Return on average equity (%)	5.5	10.1	7.7	6.0	6.1
Return on average assets (%)	3.2	5.8	4.3	3.3	3.3

Source: Company data, RHB

Overall ESG Score: 3.33 (out of 4)

E: EXCELLENT

Ascendas REIT has the largest number of BCA Green mark properties (40) total portfolio (49), largest number of public EV charging points (76) and largest combined solar farm (>21,000 solar panels) in Singapore in the S-REIT space.

S: GOOD

Its approach to health and safety is guided by its Occupational Health and Safety Management System (OHSMS) accredited to ISO 45001. The REIT also has internal targets to ensure that at least 92% of vendors (with a Level 3 and above qualification in bizSAFE) and zero cases of validated discrimination.

G: EXCELLENT

There is a high level of transparency in financial announcements and earnings releases. The REIT also has a good corporate governance framework.

Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	0.14	0.23	0.18	0.14	0.14
Property	EPS (SGD)	0.13	0.25	0.18	0.14	0.15
Ascendas REIT	DPS (SGD)	0.15	0.15	0.16	0.17	0.17
AREIT SP	BVPS (SGD)	2.43	2.42	2.39	2.39	2.40
Buy	Return on average equity (%)	5.5	10.1	7.7	6.0	6.1
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.26	4,203.99	4,210.09
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM	Recurring P/E (x)	20.07	12.20	15.42	19.93	19.54
	P/E (x)	21.27	11.48	15.29	19.71	19.33
	P/B (x)	1.2	1.2	1.2	1.2	1.2
	FCF Yield (%)	5.7	5.2	9.5	9.7	9.5
	Dividend Yield (%)	5.2	5.4	5.7	5.9	6.0
	EV/EBITDA (x)	- 3.04	- 3.42	- 3.42	- 3.37	- 3.31
	EV/EBIT (x)	- 3.06	- 3.42	- 3.42	- 3.37	- 3.31
Key drivers	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Diversified industrial assets, with high exposure to business parks and the logistics sector;	Total turnover	1,049	1,227	1,328	1,362	1,413
ii. Largest and most liquid in S-REIT space;	EBITDA	702	820	897	921	948
iii. Strong and capable sponsor.	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	897	921	948
	Net interest	(159)	(159)	(177)	(195)	(207)
	Pre-tax profit	494	1,044	812	646	660
	Taxation	(37)	(86)	(44)	(45)	(45)
	Recurring net profit	484	901	761	595	608
Key risks	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. High industrial supply and shorter land leases in Singapore;	Change in working capital	20	(83)	143	155	128
ii. Tenant defaults and rental rate pressure;	Cash flow from operations	729	727	1,143	1,181	1,182
iii. Government policies impacting the demand for industrial space	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(530)	(30)	(50)
	Dividends paid	(598)	(378)	(512)	(533)	(541)
	Cash flow from financing activities	479	1,277	(700)	(1,119)	(1,105)
	Cash at beginning of period	96	278	369	282	314
	Net change in cash	223	89	(87)	32	27
	Ending balance cash	278	369	282	314	341
Company Profile	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Ascendas REIT is a property trust constituted by a trust deed. It owns and invests in a diverse, income-producing portfolio of business parks (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.	Total cash and equivalents	278	369	282	314	341
	Total investments	14,318	16,898	17,513	17,630	17,769
	Total other assets	453	376	382	387	396
	Total assets	15,123	17,730	18,254	18,412	18,588
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	5,341	5,641	5,741
	Total liabilities	5,933	7,453	7,927	8,049	8,188
	Shareholders' equity	8,892	9,978	10,029	10,063	10,102
	Minority interests	299	299	299	299	299
	Total equity	9,191	10,277	10,328	10,362	10,401
	Net debt	4,210	5,366	6,034	6,102	6,175
	Total liabilities & equity	15,123	17,730	18,254	18,412	18,588
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	50.1	16.9	8.3	2.5	3.8
	Recurrent EPS growth (%)	12.3	64.5	(20.9)	(22.6)	2.0
	Operating EBITDA margin (%)	66.9	66.9	67.6	67.7	67.1
	Net profit margin (%)	43.6	78.0	57.8	44.2	43.5
	Dividend payout ratio (%)	117.8	65.8	88.4	116.5	115.8
	Capex/sales (%)	16.3	13.0	2.3	2.2	3.5
	Interest cover (x)	4.38	5.16	5.08	4.73	4.57

Source: Company data, RHB

Figure 1: AREIT's DDM valuation

	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SG cents)	16.2	16.7	17.2	17.7	362.5
Fair value (SGD)	3.40				
ESG Premium/(discount)	0.20				
Target Price (SGD)	3.60				
Current price (SGD)	2.83				
Price upside (%)	27.7				
Distribution yield (%)	5.7				
Total returns (%)	33.4				
Assumptions:					
Risk-free rate (%)	2.8				
Beta	0.7				
Cost of equity (%)	6.5				
Terminal growth (%)	1.5				

Source: RHB

Figure 2: 1 Buroh Lane



Source: Company

Figure 3: Phillips APAC Centre



Source: Company

Recommendation Chart

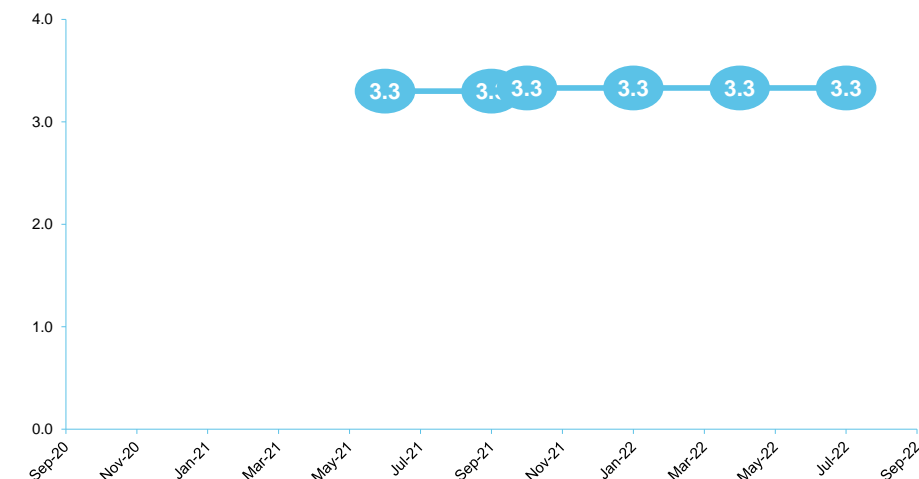


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-07	Buy	3.60	2.89
2022-02-09	Buy	3.60	2.88
2021-12-15	Buy	3.60	2.93
2021-10-20	Buy	3.60	3.04
2021-08-02	Buy	3.50	3.12
2021-06-21	Neutral	3.20	2.93
2021-03-18	Neutral	3.20	3.07
2021-02-03	Neutral	3.15	3.16
2020-04-19	Neutral	3.00	2.89
2020-02-02	Buy	3.10	3.15
2019-11-04	Neutral	3.00	3.06
2019-10-10	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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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