RHB Small Cap Asean Research

Singapore Initiating Coverage

8 April 2021

Property | REITS

AIMS APAC REIT (AAREIT SP)

Buy

An Undervalued Industrial REIT; Initiate BUY

Target Price (Return):	SGD1.55 (+17%)
Price:	SGD1.32
Market Cap:	USD696m
Avg Daily Turnover (SGD/USD)	1.10m/0.82m

- **Initiate BUY and Street-high SGD1.55 TP, 17% upside and c.7% yield.** AIMS APAC REIT is an undervalued and overlooked industrial REIT with 28 high-quality industrial assets in Singapore and Australia. Key catalysts include DPU turnaround, investor appetite for logistics assets, and accretive acquisitions. Its P/BV - 0.95x (below its 5-year mean) is a highly unjustified – c.50% discount to industrial REIT peers. The REIT has also been recently included in the FTSE Russell ST Singapore Shariah and MSCI Singapore Small Cap Indices.
- **High quality logistics focused industrial portfolio.** AAREIT derives half of its income from logistics assets, which emerged as key beneficiaries' post COVID-19's spread. The strong demand for such assets has boosted its portfolio occupancy by 6.3ppts YTD to 95.7%. Its two Australian assets offer stable long-term organic growth from long-term (12-year) master leases with inbuilt annual rent escalations.
- **Expecting DPU turnaround in FY22F (Mar) bolstered by recent acquisitions.** We expect FY22F DPU to rebound 9%, aided by two recent accretive acquisitions in Singapore, occupancy improvements, and absence of one-off rent rebates. With a modest post-acquisition gearing of 39%, we believe the REIT still has room for acquisition-led growth. AAREIT is also a potential M&A candidate in the medium term, in our view.
- **A pioneer in asset redevelopment and enhancement.** One of the REITs core strength, in our view, is that – despite the relatively small size – it has an established track record of extracting value from existing industrial assets via redevelopment, built-to-suit developments, and asset enhancement initiatives (AEIs). The REIT has so far embarked on nine such major initiatives, which has yielded an attractive ROI of 8-10% on its investment cost. There is potential untapped GFA of c.502,707sqf in its current portfolio, which we believe will be unlocked at an opportune time.
- **Highly ranked in ESG metrics.** With increasing investor focus towards ESG metrics, we are of the view that AAREIT is in a good position – the REIT is ranked third out of 45 listed REITs and trusts in the independent Governance Index for Trusts (GIFT) 2020 rankings. AAREIT is also a recipient of The Asset ESG Corporate Awards' Gold Awards for four consecutive years and has also been an active participant in the Global Real Estate Sustainability Benchmark (GRESB) assessments since 2014.
- **Key risks.** Non-renewal of land leases, unexpected defaults from master lease tenants, and a continued spike in 10-year treasury yields.

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (SGDm)	118	119	125	141	143
Net property income (SGDm)	78.5	85.9	85.0	98.2	99.8
Reported net profit (SGDm)	50.2	85.7	72.0	81.5	83.5
Total distributable income (SGDm)	70.6	66.7	62.7	68.6	69.6
DPS (SGD)	0.10	0.10	0.09	0.10	0.10
DPS growth (%)	(0.5)	(7.3)	(6.6)	9.5	1.5
P/B (x)	0.98	0.98	0.97	0.95	0.94
Dividend Yield (%)	7.8	7.2	6.7	7.4	7.5
Return on average equity (%)	5.4	9.1	7.5	8.4	8.5
Return on average assets (%)	3.4	5.5	4.3	4.6	4.5

Source: Company data, RHB

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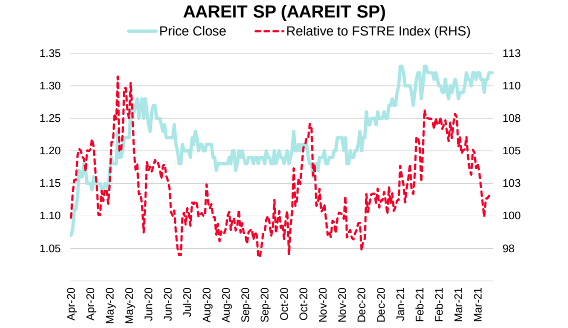
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.6	0.8	3.9	10.9	23.4
Relative	0.1	(5.8)	(0.9)	1.9	1.6
52-wk Price low/high (SGD)					1.08 – 1.33



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: Good

AAREIT established a Sustainability Council in 2017 to oversee and manage efforts to incorporate sustainable practices. The REIT has also been a participant in GRESB benchmarks since 2014.

S: Good

AAREIT has established an Occupational Health & Safety Committee to address and support health & safety concerns in the workplace.

G: Excellent

AAREIT was ranked third out of 45 listed REITs and business trusts in the GIFT 2020 Index. The REIT has been the recipient of the Gold Awards at The Asset ESG Corporate Awards for four consecutive years.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Property
AIMS APAC REIT
AAREIT SP
Buy

Valuation basis

DDM.

Key drivers

i. High-quality industrial assets, with the majority being logistics assets;
ii. Proven track record on asset redevelopments and enhancements;
iii. Inorganic growth from acquisition and M&A.

Key risks

i. Shorter land lease for industrial assets in Singapore;
ii. Rising interest rates.

Company Profile

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.

Financial summary	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring EPS (SGD)	0.07	0.12	0.10	0.12	0.12
EPS (SGD)	0.07	0.12	0.10	0.12	0.12
DPS (SGD)	0.10	0.10	0.09	0.10	0.10
BVPS (SGD)	1.34	1.35	1.36	1.38	1.40
Return on average equity (%)	5.4	9.1	7.5	8.4	8.5
Weighted avg adjusted shares (m)	690.91	706.66	706.66	706.66	706.66

Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring P/E (x)	18.22	10.91	12.96	11.45	11.18
P/E (x)	18.17	10.89	12.96	11.45	11.18
P/B (x)	1.0	1.0	1.0	1.0	0.9
FCF Yield (%)	6.4	1.9	21.2	19.9	8.6
Dividend Yield (%)	7.8	7.2	6.7	7.4	7.5
EV/EBITDA (x)	- 0.99	- 2.27	- 3.19	- 2.88	- 3.01
EV/EBIT (x)	- 0.99	- 2.27	- 3.19	- 2.88	- 3.01

Income statement (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover	118	119	125	141	143
EBITDA	69	76	73	86	87
Operating profit	69	76	73	86	87
Net interest	(18)	(19)	(19)	(23)	(24)
Income from associates & JVs	24	61	15	15	16
Pre-tax profit	53	93	75	85	87
Taxation	(3)	(8)	(3)	(3)	(3)
Recurring net profit	50	86	72	81	83

Cash flow (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Change in working capital	0.3	2.0	1.0	1.4	0.7
Cash flow from operations	72.6	82.7	74.5	87.8	88.2
Capex	(14.3)	(65.2)	123.8	98.0	(7.7)
Cash flow from investing activities	0.2	(60.5)	138.8	113.0	7.3
Dividends paid	(63.8)	(53.2)	(62.7)	(68.6)	(69.6)
Cash flow from financing activities	(71.9)	(19.2)	(205.4)	(200.1)	(93.0)
Cash at beginning of period	17.6	18.1	20.4	28.2	28.7
Net change in cash	0.9	3.0	7.9	0.8	2.6
Ending balance cash	18.3	20.8	28.4	28.9	31.3

Balance sheet (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total cash and equivalents	18	20	28	29	31
Total investments	1,460	1,623	1,669	1,803	1,823
Total other assets	0	0	0	0	0
Total assets	1,485	1,649	1,703	1,839	1,861
Short-term debt	80	157	72	69	65
Total long-term debt	417	383	459	583	594
Total liabilities	556	694	614	737	745
Shareholders' equity	928	955	964	977	991
Total equity	928	955	1,089	1,102	1,116
Net debt	479	519	503	622	628
Total liabilities & equity	1,485	1,649	1,703	1,839	1,861

Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Revenue growth (%)	1.0	0.7	5.0	12.9	1.5
Recurrent EPS growth (%)	(19.1)	67.1	(15.8)	13.2	2.4
Operating EBITDA margin (%)	58.4	63.5	58.5	61.0	60.9
Net profit margin (%)	42.5	72.1	57.6	57.8	58.3
Dividend payout ratio (%)	140.7	77.8	87.1	84.2	83.4
Capex/sales (%)	12.1	54.9	(99.1)	(69.5)	5.4
Interest cover (x)	3.69	3.99	3.82	3.67	3.67

Source: Company data, RHB

Investment Highlights

A well-balanced and high quality industrial portfolio... AAREIT is an industrial focused REIT with an established track record of nearly 15 years since its listing as MacarthurCook Industrial REIT on the SGX-ST in 2007. Since listing, the REITs portfolio has grown more than five-fold from SGD316m to SGD1.7bn as of 3QFY21.

AAREIT's existing portfolio consists of 28 properties with a portfolio value of SGD1.7bn. Singapore is its key focus market (c.88% of assets by value), with 26 properties located strategically across various industrial clusters domestically. The REIT has two assets in Australia: One in Gold Coast, Queensland, and a 49% interest in one business park property – Optus Centre – at Macquarie Park, New South Wales.

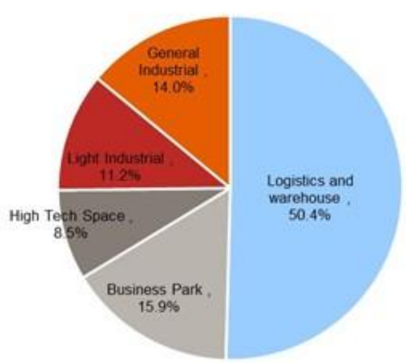
- Diversified portfolio of 28 industrial assets with logistics accounting for half of rental contributions
- Singapore accounts for bulk c.88% assets with Australia forming the rest

…with the majority being in the high demand logistics sector. Logistics assets (11) are the biggest contributors to 3QFY21 rental income (50.4%), followed by two business parks (15.9%), eight general industrial (14%), six light industrial (11.2%), and a high-tech space (8.5%). By lease type, multi-tenant buildings accounted for 65% of rental income, with master lease tenants contributing the remaining 35%.

Figure 1: AAREIT's Singapore portfolio (excluding two recent acquisitions)

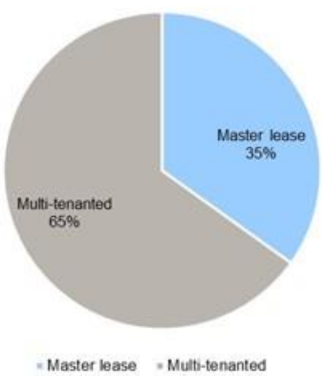
Source: Company data

Figure 2: Rental contributions by assets – 3QFY21



Source: Company data

Figure 3: Rental contributions by lease type – 3QFY21



Source: Company data

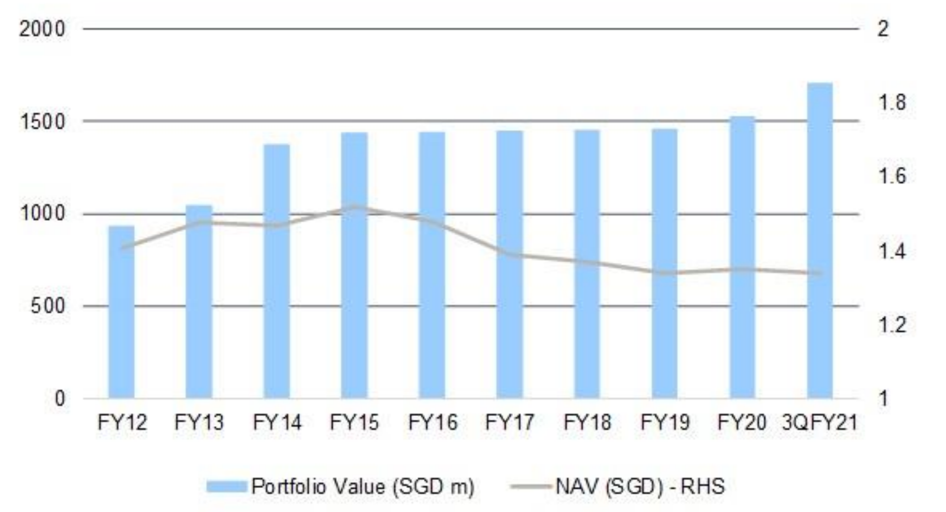
Growing in value post its Global Financial Crisis (GFC) redemption. Arising from the brink of financial bankruptcy during the GFC, the REIT – then known as MacarthurCook Industrial REIT (see Appendix A) – has been renamed as AAREIT and grown steadily under its Australian-listed sponsor AIMS Financial (AIMS).

♦ Portfolio value has doubled in the last decade post takeover of AIMS during the GFC

During last 10 years, the REITs portfolio value has nearly doubled to SGD1.7bn as at 3QFY21 from SGD930.9m, representing a 6% pa growth CAGR. This is despite not having any Right of First Refusal (ROFR) pipeline of assets from a sponsor – testament to management's acquisition capabilities in a highly competitive market.

Despite shorter land leases for industrial assets in Singapore – resulting in a lease decay effect on valuation (ie reduction in asset value over years as land tenure reduces) – AAREITs NAV has held relatively steady over the last 10 years.

Figure 4: Portfolio value and NAV trend

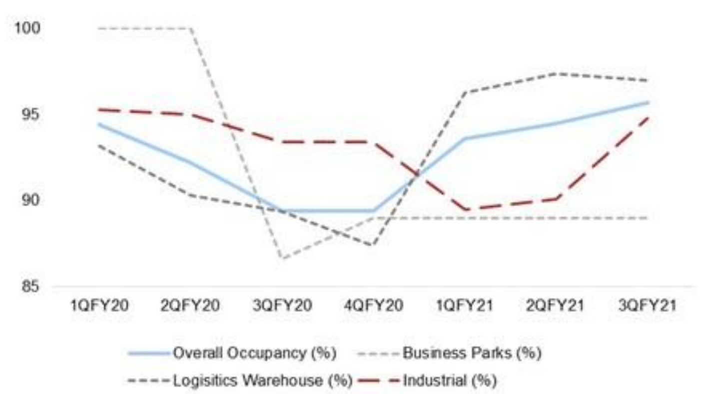


Source: Company data, RHB

High demand for logistics assets driving occupancy higher. Driven by last year's strong demand for logistics assets, the overall portfolio occupancy rose 6.3% to 95.7% as at 3QFY21 from FY20 numbers – AAREIT's highest portfolio occupancy since 2Q16. We expect this high occupancy to be sustained, as demand for logistics/warehouse assets remains strong – driven by e-commerce trends, stockpiling, and supply chain shifts. Rental reversion for renewal leases also turned positive (+1.1%) after declining during the previous four quarters – a sign of strengthening demand.

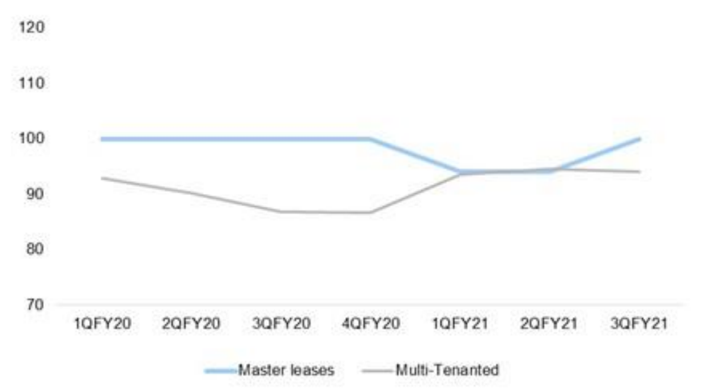
♦ Occupancy improved 6% YTD, driven by strong demand for logistics assets

Figure 5: Portfolio occupancy by asset class (%)



Source: Company data, RHB

Figure 6: Occupancy by lease type (%)



Source: Company data, RHB

Australian assets are well supported by long leases, providing stable rental income. Boardriders' Asia-Pacific headquarters – which was acquired in Jul 2019 – is on a 12-year master lease with a built-in rental escalation of 3% pa. The tenant has the option to renew for five years.

- Both Australian assets are on 12-year master leases with rent escalations of 3-3.25% pa

For Optus Centre, AAREIT completed major AEI works recently, which helped it secure a new 12-year master lease commencing July with existing master tenant Singtel Optus, a leading telecommunication player in Australia. The lease also has annual rent escalations of 3.25% pa and two 5-year options to extend the lease after the initial lease term.

Figure 7: Boardriders' Asia-Pacific headquarters

Source: Company, RHB

Figure 8: Optus Centre

Source: Company, RHB

Minimal one-off impact from COVID-19. AAREIT provided for SGD2.6m rental relief for eligible tenants in 1QFY21 under the Singapore Rental Relief framework. We do not anticipate further rent relief, given the strong pick-up in industrial activity since the fourth quarter of 2020.

- One-off rent rebates of SGD2.6m due to COVID-19

We understand from management that rental collection rates have generally remained healthy last year, with no material delays due to COVID-19. There has also been no impact from the realigned framework, which allows for the renegotiation of rental contracts for businesses significantly impacted by the pandemic, with no notice received from AAREIT's tenants to date for such negotiations.

Growing through acquisitions. In Oct 2020, AAREIT completed the acquisition of a ramp-up logistics warehouse at 7 Bulim Street, which is strategically located in the Jurong Innovation District for SGD135.5m. The asset – acquired at par with the latest valuation – has an existing 10-year master lease that commenced on 1 Jan 2014 with Kintetsu World Express, with a 5-year option to extend. Due to rising demand for ramp-up logistics assets and good locations, we believe the asset is a good strategic fit to AAREITs existing portfolio.

- Recent DPU-accretive acquisitions of two good quality industrial assets in Singapore. We expect AAREIT to acquire SGD100-200m assets annually

In January, the REIT also announced a proposed acquisition of 315 Alexandra Road, ie the Sime Darby Business Centre (a light industrial building), for SGD106.6m. The proposed acquisition, which is expected to be fully funded by debt, is yield accretive to a *pro-forma* DPU of +5.1%. These accretive acquisitions will give a healthy boost to AAREIT's FY22F DPU. We expect the REIT to continue its acquisition trajectory, with potential acquisitions of SGD100-200m in assets pa.

Figure 9: 7 Bulim Street

Source: Company

Figure 10: Sime Darby Business Centre

Source: Company

Potential M&A opportunities in the medium term. AIMS currently owns the entire REIT manager and an 8% stake in the REIT. AAREIT's biggest shareholder is Hong Kong-listed Cayman (1821 HK, NR), which holds a 13% stake in the REIT. ESR Cayman is also the REIT manager and sponsor of another industrial REIT in Singapore.

With the M&A trend in REITs accelerating over the last two years – in order to gain economies of scale – we do not discount the possibility of a merger between AAREIT and other industrial REITs in the medium term. However, such a transaction has to be structured in a win-win manner to gain both unitholders' approvals.

A pioneer in asset redevelopment and enhancement. One of the core strengths that differentiates AAREIT from its industrial peers, in our view, is its established track record of extracting value from existing industrial assets via redevelopments, built-to-suit developments, and AEIs. The REIT has embarked on nine such initiatives to date with an estimated ROI of 8-10% on its investment cost – this is higher than typical acquisition yields of 6-7%.

- Strong track record of asset redevelopment and enhancement, which has generated superior returns for unitholders

The AEI's have also helped in preserving the asset value via lease extensions and extending land tenures. The REIT manager has noted that its existing portfolio still has potential of untapped GFA of approximately 502,707sqf spread across various assets, which we believe will be fully unlocked at the opportune time. Highlighted below are some of the REIT's redevelopment and AEI projects.

Case study 1: 3 Tuas Avenue 2 (redevelopment)

The design-and-build redevelopment project began in May 2018 and transformed the asset into a modern and versatile ramp-up industrial facility suitable for production and storage. The completion of the redevelopment follows the signing of the master lease agreement with a global medical device design & development, storage, and distribution company and a subsidiary of NYSE-listed parent company (the master tenant) in Jul 2019.

The master lease agreement included the additional redesign requirements of the property's base build to cater for the master tenant's operational requirements. The property generated an initial net property income yield of 8.3% based on the estimated development cost.

Figure 11: 3 Tuas Avenue 2 (redevelopment)

Source: Company data

Case study 2: 20 Gul Way (redevelopment)

AAREIT's largest development project to date – 20 Gul Way – completed the final phase of development on 9 Sep 2014. The property comprises a 5-storey ramp-up warehouse and logistics facility that incorporates two individual building envelopes, which provide warehouse, logistics, and ancillary office accommodation with a substantial hardstand marshalling yard.

The 3.5-year project was completed in four phases, increasing the plot ratio from 0.46 to 1.4 for Phases 1 and 2, further increasing the plot ratio to 2.0 and extending the warehouse with Phases 2 (extension) and 3. This brings the site's total GFA to 1,656,485sqf from 378,064sqf.

Figure 12: 20 Gul Way (redevelopment)

Source: Company

Case study 3: 51 Marsiling Road (greenfield build-to-suit development)

AAREIT undertook its first greenfield build-to-suit development at 51 Marsiling Road, which received temporary occupation permit (TOP) on 27 Oct 2017. Fully leased to leading manufacturer Beyonics International for a term of 10 years with rent escalations, this purpose-built property yielded a net property income (NPI) of SGD3.5m in the first year, which works out to a ROI of 10% based on an estimated development cost of SGD35m.

Figure 13: 51 Marsiling Road (greenfield build-to-suit development)

Source: Company

Case study 4: 26 Tuas Avenue 7 (asset enhancement)

AAREIT undertook a customised AEI at 26 Tuas Avenue 7 for SGD1.2m. The 2-storey building is a purpose-built factory with a mezzanine office space. Post AEI, the factory has an additional production line and extra storage spaces. By providing a customised property solution, the tenant extended the existing leasing term for another five years with agreed stipulated rental escalations under the new lease terms. Annual rental income – as a result – rose from the current SGD0.87m to SGD 1.05m at the start of new term. This provided a ROI of 10%.

Case study 5: 1 Kallang Way 2A (asset enhancement)

AAREIT unlocked value at 1 Kallang Way 2A with an asset enhancement for a modest investment of SGD2.2m. The project increased the lettable area at the 8-storey light industrial building by 13%, adding warehouse and ancillary spaces.

The forecast annual rental income has increased to SGD1.39m from SGD1.07m, providing a rental yield of 9.5%.

Ranked highly in ESG efforts. AAREIT has been ranked highly for its corporate governance framework by GIFT. The REIT ranked third out of 45 listed REITs and trusts in Singapore (see the GIFT 2020 rankings), moving up one place from 2019.

GIFT is dedicated to assessing governance and business risks of SGX-listed trusts. The GIFT ranking, produced by NUS Business School Associate Professor of Accounting Mak Yuen Teen and Chew Yi Hong – an active investor and keen observer of the corporate governance scene – is a study of Singapore-listed trusts. It was first launched in 2017 and is supported by the SGX.

The REIT has also been a participant in the annual GRESB assessment since 2014 to provide an objective standard in engagement with stakeholders. In 2017, AAREIT established a Sustainability Council to oversee and manage efforts to incorporate sustainable practices into its business. This council is responsible for the ongoing review and assessment of relevant and material ESG topics related to daily operations, as well as the selection of key performance indicators and targets.

- Ranked third out 45 listed REITs and trusts in the GIFT 2020 ranking
- Gold Award recipient at The Asset ESG Corporate Awards for four consecutive years

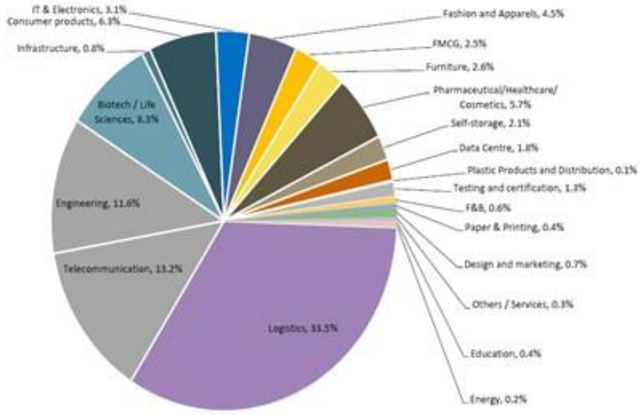
AAREIT also continually incorporates ESG elements to its assets, such as including water- and energy-saving initiatives. As a testament to its ESG efforts, the REIT's latest redevelopment projects – 3 Tuas Avenue 2 and Northtech – are Building & Construction Authority (BCA) certified. Additionally, nearly half of its portfolio by NLA are BCA Green Mark compliant. That AAREIT has been the recipient of the Gold Award at The Asset ESG Corporate Awards for four consecutive years – the latest in 2020 – is testament to its continuing efforts and achievements in building a sustainable business.

Recent Inclusion into FTSE Shariah and MSCI Small Cap Indices. AAREIT was added to the FTSE Russell ST Singapore Shariah Index on 21 Dec 2020. This follows its earlier inclusion in the MSCI Singapore Small Cap Index in May 2020. The inclusions into these indices should help in further improving trading liquidity and visibility among global institutional investors, thereby addressing some of the concerns of large institutional investors.

Well-diversified portfolio across sectors and tenants. AAREIT's portfolio is diversified across more than 20 different trade sectors. Logistics (34%), telecommunication (13%), and engineering (12%) – ie more-stable industries – are its Top 3 trade sectors, accounting for more than half of its rental income. More importantly, the REIT has minimal exposure to some of hard-hit COVID-19 sectors like aviation, tourism-related, and energy. Its Top 10 tenants accounted for 47% of total 3QFY21 rental income and are generally good quality names with strong credit profiles (Figure 15).

- No concentration risks, with Top 10 tenants of generally strong credit quality

Figure 14: Rental breakdown by trade sectors (3QFY21)



1 Tenant base expanded by 16.7% over the last 24 months (196 as at 31 December 2020 vs 168 tenants as at 31 December 2018)
2 More than 50% of tenants operate in the essential services

Source: Company data

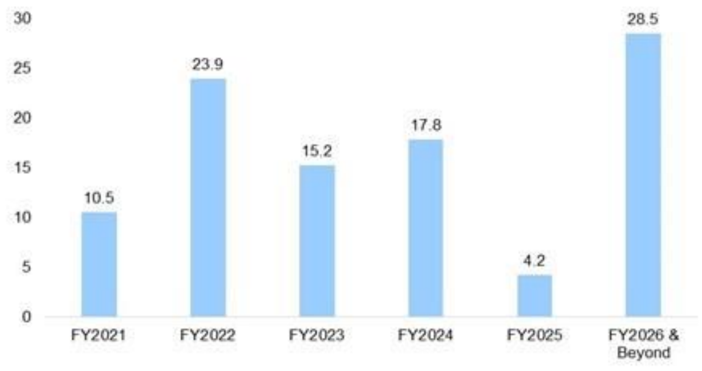
Figure 15: Top 10 tenants income contributions (3QFY21)

Tenant	%
Optus Administration Pty Limited	12.6
Illumina Singapore Pte Ltd	8.3
KWE-Kintetsu World Express (S) Pte Ltd	7.3
Beyonics International Pte Ltd	3.7
Resmed Asia Pte Ltd	3.4
GSM (Operation) Pty Ltd	2.7
CWT Pte Ltd*	2.5
Schenker Singapore (Pte) Ltd	2.4
CIT Cosmeceutical Pte Ltd	2.1
Focus Network Agencies (Singapore) Pte Ltd	1.9
Top 10 tenants	**46.9**

Source: Company data

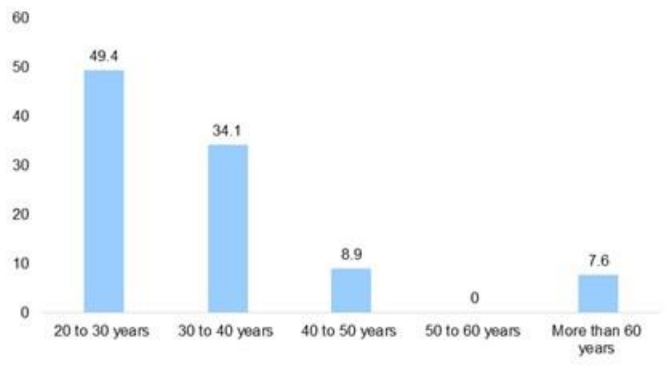
Healthy weighted average lease expiry (WALE) of 3.94 years. WALE by rental income of the portfolio is 3.94 years (including forward committed leases) with no more than 24% of leases expiring in any single year. The REIT portfolio has weighted average land lease expiry of 34.8 years (assuming freehold asset of 99 years), which we believe is manageable considering the REITs good redevelopment and asset enhancement track record.

Figure 16: Rental breakdown by trade sectors (3QFY21)



Source: Company data

Figure 17: Top 10 tenants' income contribution (3QFY21)



Source: Company data

Fee structure broadly in line with peers. AAREIT's management base fees are set at 0.50% pa of portfolio value, similar to most fees of peers (Figure 18). Its performance fees are aligned to unitholder interest of generating higher returns. The trustee's fees are at the higher end at 0.1% of property value, while acquisition and divestment fees are comparable with those of industry peers.

Figure 18: A comparison of industrial REITs' fees

	Property management fees	REIT management fees		Trustee fees	Acquisition fee	Divestment fees
		Base	Performance	% of property value	% of purchase price	% of sale price
AIMS APAC REIT	2.0% of rental income (base) + 1.0% of rental income (lease mgmt)	0.50% pa of portfolio value	0.1% of portfolio value if DPU difference >2.5% YoY, 0.2% of portfolio value if DPU difference >5.0%	0.100%	1.00%	0.50%
Ascendas Real Estate Investment Trust	2.0% of gross rev + 1.0% of gross rev (lease mgmt fee)	0.50% pa of portfolio value	0.1% of portfolio value if DPU difference >2.5% YoY, 0.2% of portfolio value if DPU difference >5.0%	Not exceeding 0.25% pa of the value of all the gross assets, subject to a minimum of SGD10,000/month	1.00%	0.50%
ARA Logos Logistics Trust	AUS: 2.0% of NPI, SG: 2.0% of gross rev (base) + 1.0% of gross rev (lease)	0.50% pa of portfolio value	1.5% of NPI	0.030%	1.00%	0.50%
ESR REIT	2.0% of gross rev + 1.0% of gross rev for lease mgmt fee	0.50% pa of portfolio value	25.0% YoY DPU difference *weighted avg no of units, capped at 0.8% of portfolio value pa	0.030%	1.00%	0.50%
EC World REIT	1.5% p.a. of gross revenue of the property	10.0% pa of distributable income	25.0% pa of the YoY DPU difference x weighted avg no of units in issue for such financial year	Not exceeding 0.1% pa of the value of the Deposited Property, subject to a min of SGD12,000/ month	0.75% from related parties 1.0% for other cases	0.50%
Frasers Logistics and commercial Trust	AUS: 1.2% of NPI, Outside AUS: 2.0% of gross rev (base) + 1.0% of gross (lease)	0.40% of portfolio value	5.0% of distributable income	0.015%	0.50% for related parties, 1.0% for all others	0.50%
Mapletree Industrial Trust	2.0% of gross rev + 1.0% of gross rev for lease mgmt fee	0.50% pa of portfolio value	3.6% of NPI	0.020%	1.0%	0.50%
Mapletree Logistics Trust	2.0% of gross rev + 1.0% of gross rev for lease mgmt fee	0.50% pa of portfolio value	3.6% of NPI	0.030%	1.0%	0.50%
Sabana Shariah Compliant REIT	2.0% of gross rev + 1.0% of gross rev for lease mgmt fee	0.50% pa of portfolio value	5% of NPI if DPU >10% YoY	0.25%	1.0%	0.5%

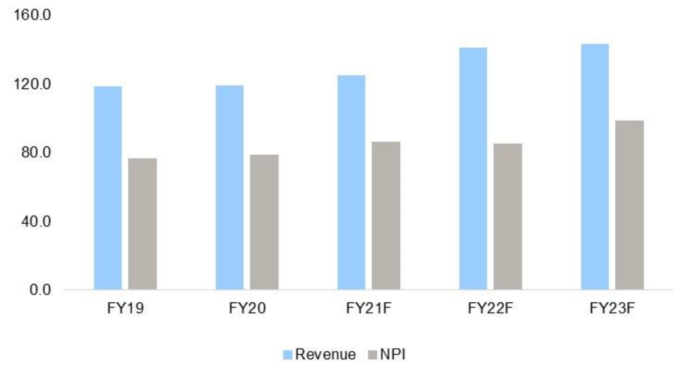
Source: Company data, RHB

Financials

Expecting 9% jump in FY22F DPU. Key drivers of distributable income growth are the accretive contributions from two industrial asset acquisitions, uplift in portfolio occupancy and absence of rental rebates. NPI margins are expected to stay relatively flat at c.70%. FY21 DPU is forecasted to decline 7% YoY mainly due to the provision of SGD2.6m rent rebates, conversion of master leases to multi tenancy and absence of one off SGD2.3m of property tax refund recognised in FY20. Our forecast assumes occupancy to stay flattish around c.95% levels as well as positive rental growth of 1-3% and a 100%payout ratio.

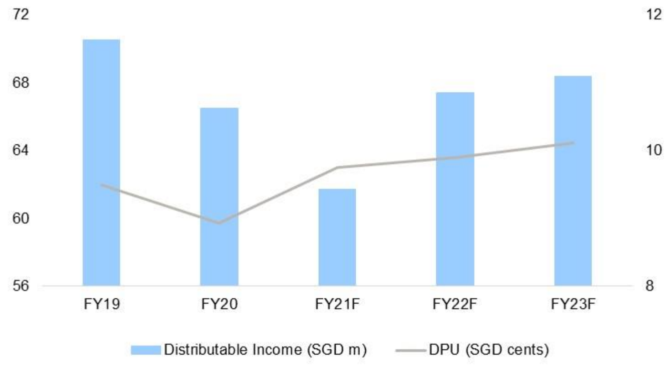
Our FY21F-23F DPU is 1-4% higher than consensus. Our forecasts also do not assume any potential acquisitions or uplift from asset enhancements or rejuvenation plans.

Figure 19: Revenue and NPI



Source: Company data, RHB

Figure 20: Distributable income and DPU growth



Source: Company data, RHB

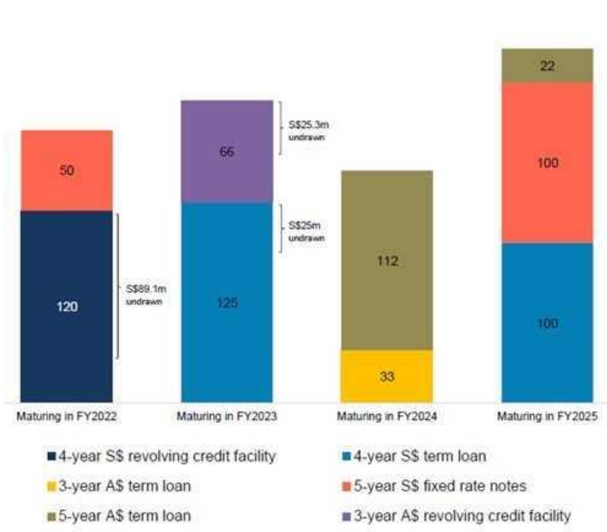
Portfolio valuation expected to remain steady as industrial asset values have remained relatively resilient despite COVID-19. The impact of lease decay on its Singapore industrial assets is expected to be offset by stronger outlook for its logistics portfolio. Overall, we anticipate a slight (0.5%) revaluation gain for FY21F driven by increased occupancy and higher rent growth expectations for logistic assets.

Gearing to remain below 40%. Gearing as at 3QFY21 stands at 34.1%. Post proposed acquisition completion of 315 Alexandra Road – which will be fully funded by debt – gearing is expected to move to 39% (still well below the Monetary Authority of Singapore's (MAS) threshold of 50%). Management noted that it intends to keep gearing at the c.40% level to buffer for uncertainties. Thus, future acquisitions are likely to be funded by a combination of equity and debt.

Maiden perpetual security issuance of SGD125m. In Aug 20, AAREIT issued SGD125m 5-year perpetual securities (perps) with an annual coupon of 5.65% pa as a means of diversifying its funding sources. The perps were mainly used to fund the acquisition of 7 Bulim Street. The first reset data for the perps will be on 14 Aug 2025 with a reset distribution rate of the prevalent Swap Offer rate plus the initial spread of 5.207%.

Potential for interest cost savings. AAREIT has about SGD170m of debt due for refinancing in 2HFY22. The REITs current blended funding cost is 3.1% pa. There is scope for this interest cost to be lowered by 10-20 bps upon refinancing. We have not factored this into our numbers yet considering the current market volatility. Weighted average debt expiry (WADE) currently stands at 2.6 years. About 79% of its debt is also hedged.

Figure 21: Debt maturity profile



Maturity date	S$'m
Due in November 2021 (FY2022)	30.9
Due in March 2022 (FY2022)	50.0
Due in June 2022 (FY2023)	40.9
Due in July 2022 (FY2023)	100.0
Due in July 2023 (FY2024)	112.1
Due in November 2023 (FY2024)	33.1
Due in July 2024 (FY2025)	121.5
Due in November 2024 (FY2025)	100.0
Total debt drawn down	**588.5**
Undrawn available facilities	**139.5**
Total committed facilities	**728.0**

Source: Company data

Payment of management fees. For FY21F, AAREIT switched to 100% payment of management fees in cash compared to the previous year's 50% in cash and the remaining in units. This has resulted in a slight dip in YTD DPU. Our forecast currently conservatively assumes a similar 100% of payment of management fees in cash.

Distribution frequency. AAREIT declares and distributes dividends to unitholders on a quarterly basis.

Taxes. The REITs income from Singapore assets are tax exempted but are taxed at the unitholder level (only for institutional unitholders). The REIT pays an effective tax of 10-12% for its Australian income.

Valuation

Initiate with BUY TP of SGD1.55, representing 25% total returns. Our 5-year DDM-based TP is derived with COE of 7.7% (risk-free rate: 2.75%, terminal growth: 1.5%). We have assumed a 100% payout ratio, taking into consideration the REIT's near-term capex requirements and assuming 100% of the management fees being paid in units.

Our TP implies 1.2x FY21F P/BV, which is the average P/BV of S-REITs (Figure 25). We believe the premium to book value is well justified, considering the positive industrial sector outlook, especially the logistics sector, as well as increased scale and management capabilities.

Figure 22: DDM valuation table

	FY21F	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SG cents)	8.9	9.7	9.9	10.1	10.3	168.1
Fair value (SGD)	**1.55**					
Current price (SGD)	1.32					
Price upside (%)	17.4					
Distribution yield (%)	7.4					
Total return (%)	**24.8**					
Assumptions						
Risk-free rate: (%)	2.8					
Beta	0.9					
Cost of equity (%)	7.7					
Terminal growth: (%)	1.5					

Source: RHB

Sensitivity analysis. Based on sensitivity analysis, every 0.5% change to our COE/ terminal growth assumption corresponds to 8% and 6% change in TP.

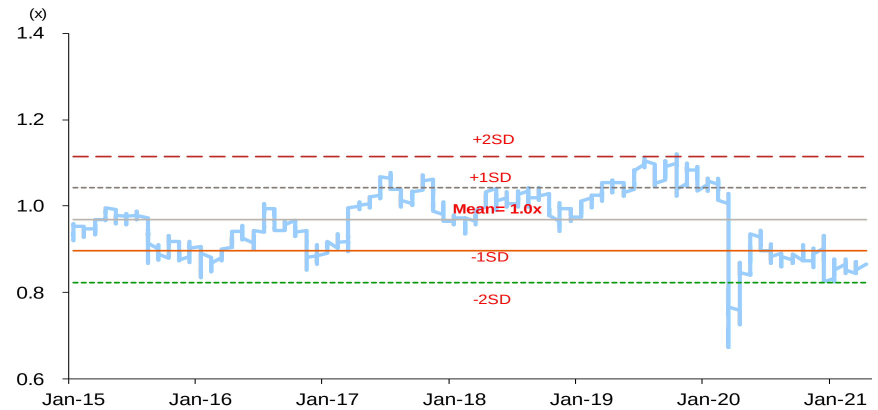
Figure 23: Terminal growth vs COE

Terminal Growth/ COE	6.7%	7.2%	7.7%	8.2%	8.7%
0.0%	1.51	1.40	1.31	1.23	1.16
0.5%	1.60	1.48	1.38	1.29	1.21
1.0%	1.71	1.57	1.46	1.36	1.27
1.5%	1.85	1.68	1.55	1.43	1.33
2.0%	2.01	1.81	1.66	1.52	1.41

Source: RHB

Trading below historic mean level… At the current P/BV of 0.9x, AAREIT is trading below it historical mean level of 1x P/BV (since 2015), which we find highly attractive.

Figure 24: Historical P/BV



Source: Bloomberg

…and nearly 50% discount to industrial peer average. AAREIT's current P/BV of 0.9x is an attractive c.50% discount to industrial S-REIT's average of 1.5x. Despite its smaller size and liquidity constraints, we believe the huge discount to its peers is unjustified considering its good quality assets and management capabilities. The REIT also offers a healthy c.7% dividend yield, higher than the sector average of c.5%

Figure 25: S-REITs comparison table

	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	DPU Freq	Gearing/simple ave	WALE (years)	% FY-1	% FY-2
REITs (40)	**81,033**	**184,101**		**0.6**	**1.5**	**4.5**	**1.9**	**4.7**	**38.8**	**1.9**	**42.6**	**(9.5)**	**1.2**	**5.2**	**5.4**	**3.5**		**37.6%**	**4.1**		
Office (3)	**8,280**	**22,180**		**0.9**	**1.2**	**6.9**	**7.0**	**10.6**	**36.0**	**7.0**	**38.1**	**(4.6)**	**0.8**	**5.6**	**5.6**	**3.9**		**38.9%**	**4.2**		
Suntec REIT	3,332	11,652	1.58	1.3	1.3	6.0	6.0	6.8	38.6	6.0	41.1	(4.2)	0.7	5.7	5.7	4.0	Q	41.5%	3.01	25%	18%
Keppel REIT	3,375	9,987	1.24	1.6	1.6	7.8	10.7	14.8	40.1	10.7	41.7	(2.4)	0.9	4.8	4.8	3.1	Q	35.0%	7.1	15%	18%
OUE Commercial Trust	1,573	542	0.39	(1.3)	0.0	6.8	1.3	9.9	21.9	1.3	23.8	(10.3)	0.6	7.2	6.9	5.5	S	40.3%	2.4	28%	25%
Retail (6)	**22,385**	**51,369**		**0.8**	**2.6**	**3.9**	**2.0**	**10.9**	**44.5**	**2.0**	**48.7**	**(7.1)**	**1.1**	**5.0**	**5.1**	**3.3**		**36.4%**	**3.2**		
CapitaLand Integrated Commercial Trust	10,535	29,335	2.19	0.9	3.3	4.3	1.4	14.7	44.1	1.4	47.0	(8.4)	1.1	5.0	5.0	3.3	Q	39.9%	2	29%	34%
Mapletree Commercial Trust	5,249	11,789	2.13	0.5	1.4	3.9	0.0	7.6	42.0	0.0	45.9	(5.3)	1.2	4.1	4.4	2.4	S	33.8%	2.5	6%	13%
SPH REIT	1,807	1,130	0.88	0.0	4.2	5.4	3.6	(0.6)	28.7	3.6	30.6	(4.9)	0.9	5.9	5.9	4.2	Q	30.5%	3.1	25%	23%
Frasers Centrepoint Trust	3,155	6,376	2.50	1.6	1.2	0.8	1.6	4.0	52.8	1.6	61.7	(8.9)	1.1	5.2	5.2	3.5	Q	39.3%	1.5	40%	31%
Starhill Global REIT	936	813	0.57	1.8	5.6	9.6	12.9	29.5	44.3	12.9	50.0	(3.4)	0.7	7.0	7.0	5.3	S	39.1%	5.5	14%	14%
Lendlease Global Commercial REIT	702	1,926	0.80	(0.6)	0.0	1.9	9.6	15.9	72.0	9.6	81.8	(3.6)	0.9	5.9	6.1	4.2	S	35.6%	4.9	12%	20%
Industrial (10)	**30,640**	**81,552**		**0.3**	**0.8**	**4.0**	**(0.0)**	**(5.1)**	**35.3**	**(0.0)**	**38.3**	**(13.4)**	**1.5**	**4.8**	**5.0**	**3.1**		**37.1%**	**4.0**		
Ascendas REIT	9,448	30,850	3.06	0.3	0.7	3.4	2.7	(6.1)	21.5	2.7	22.4	(16.1)	1.4	5.2	5.2	3.5	S	34.9%	3.9	8%	16%
Mapletree Industrial Trust	4,770	14,162	2.73	(0.4)	1.1	3.4	(5.5)	(15.7)	28.8	(5.5)	30.0	(19.0)	1.6	4.5	4.9	2.8	Q	38.1%	4.2	7%	15%
Mapletree Logistics Trust	6,175	18,832	1.94	0.5	1.0	5.4	(3.5)	(5.8)	29.4	(3.5)	32.9	(12.2)	1.5	4.2	4.4	2.5	Q	39.5%	4.2	11%	25%
Frasers Logistics & Commercial Trust	3,694	N.M	1.45	0.0	0.7	8.2	2.8	2.1	87.7	2.8	93.7	(7.6)	1.3	5.3	5.4	3.6	S	37.4%	4.9	8%	12%
Keppel DC REIT	3,302	12,611	2.72	0.7	0.7	0.4	(3.2)	(6.2)	17.2	(3.2)	22.5	(13.9)	2.3	3.7	3.8	2.0	S	35.2%	7.2	6%	8%
AIMS APAC REIT	688	840	1.31	1.6	(0.8)	1.6	4.8	10.1	33.0	4.8	33.7	(2.2)	0.9	6.7	7.2	5.0	Q	34.1%	3.9	24%	15%
ARA Logos Logistic Trust	693	1,862	0.73	0.0	(1.4)	2.1	21.7	17.5	59.7	21.7	65.1	(2.0)	1.4	6.8	6.8	5.1	Q	40.4%	2.5	33%	20%
Soilbuild Business Space REIT	507	694	0.54	0.0	0.0	0.9	0.0	5.9	75.4	0.0	81.4	(0.9)	1.0	N.M	N.M	N.M	Q	36.8%	3.2	21%	20%
Sabana Shari'ah Compliant REIT	309	340	0.40	1.3	0.0	6.8	11.3	8.2	51.9	11.3	58.0	(3.7)	0.8	7.3	7.6	5.6	S	33.4%	2.7	19%	16%
Hospitality (4)	**5,353**	**6,816**		**1.3**	**2.1**	**5.7**	**0.8**	**21.0**	**58.0**	**0.8**	**60.6**	**(5.6)**	**1.0**	**4.1**	**5.4**	**2.4**		**37.1%**	**N.A**		
Ascott Residence Trust	2,499	4,242	1.08	0.9	1.9	5.9	0.0	21.3	46.9	0.0	49.0	(7.7)	1.1	3.9	5.4	2.2	S	34.6%	N.A	N.A	N.A
CDL Hospitality Trusts	1,147	1,708	1.26	1.6	1.6	0.8	(0.8)	20.0	77.5	(0.8)	80.0	(5.3)	1.0	4.8	5.6	3.0	S	36.7%	N.A	N.A	N.A
Far East Hospitality Trust	934	686	0.64	1.6	2.4	9.4	3.2	17.4	68.4	3.2	73.0	(3.0)	0.8	4.2	4.8	2.5	Q	39.5%	N.A	N.A	N.A
Frasers Hospitality Trust	773	179	0.54	1.9	2.9	8.0	2.9	25.6	52.1	2.9	54.3	(2.7)	0.8	3.7	6.1	2.0	S	37.7%	N.A	N.A	N.A
Healthcare (2)	**2,114**	**3,190**		**0.3**	**(1.4)**	**1.2**	**5.8**	**(6.8)**	**19.6**	**5.8**	**33.6**	**(17.9)**	**1.9**	**3.0**	**3.0**	**1.3**		**43.8%**	**6.2**		
Parkway Life REIT	1,834	1,872	4.08	0.0	(1.9)	(0.5)	5.4	(1.4)	32.0	5.4	36.0	(9.7)	2.1	3.4	3.5	1.7	Q	38.6%	5.94	N.A	N.A
First REIT	280	1,318	0.24	2.2	2.2	11.9	8.3	(42.2)	(62.0)	8.3	17.5	(71.2)	0.5	N.M	N.M	N.M	Q	49.0%	6.4	25%	0%
Overseas (15)	**12,261**	**18,995**		**0.1**	**1.9**	**4.8**	**3.1**	**8.7**	**34.3**	**3.1**	**38.8**	**(7.7)**	**0.9**	**7.0**	**7.5**	**5.5**		**37.6%**	**4.2**		
ARA US Hospitality Trust	295	144	0.52	0.0	(5.5)	4.0	18.2	67.7	65.1	18.2	108.0	(7.1)	0.8	4.8	11.0	3.4	Q	43.0%	N.A	N.A	N.A
Dasin Retail Trust	423	78	0.73	0.0	0.7	0.7	(7.0)	(8.2)	(10.4)	(7.0)	4.3	(13.1)	0.5	6.8	7.1	3.7	S	38.5%	4	27%	8%
EC World REIT	435	280	0.73	1.4	1.4	(1.4)	1.4	9.0	39.4	1.4	39.4	(2.7)	0.8	6.9	8.3	3.7	Q	38.3%	3.3	13%	1%
Prime US REIT	885	96	0.84	(2.9)	(0.6)	5.0	5.7	2.5	45.2	5.7	47.8	(5.1)	1.0	8.4	8.4	7.0	S	32.7%	4.6	9%	8%
Mapletree North Asia Comm Trust	2,705	5,012	1.06	0.0	5.0	10.4	9.3	15.2	38.6	9.3	41.3	(1.9)	0.8	5.8	6.6	4.4	S	40.1%	2.5	10%	19%
CapitaLand China Trust	1,549	5,469	1.37	0.0	0.0	0.7	(1.4)	18.5	29.6	(1.4)	29.6	(7.4)	0.9	6.4	7.0	3.2	S	39.6%	2.4	32%	19%
Lippo Malls Indonesia Retail Trust	382	392	0.07	1.5	1.5	8.8	8.8	(13.2)	(25.9)	8.8	12.4	(53.7)	0.4	N.M	N.M	N.M	Q	42.5%	3.4	9%	14%
Manulife US REIT	1,170	2,477	0.74	0.7	2.8	8.9	(1.3)	(1.3)	10.5	(1.3)	14.8	(14.0)	1.0	8.2	8.2	6.5	S	39.9%	5.5	7%	17%
BHG Retail REIT	209	5	0.55	0.0	0.0	(1.8)	0.0	0.0	10.0	0.0	10.0	(19.1)	0.7	N.M	N.M	N.M	S	35.7%	3.7	22%	11%
Keppel Pacific Oak US REIT	681	928	0.72	0.0	0.0	5.9	4.3	1.4	58.2	4.3	60.0	(3.4)	0.9	8.3	8.3	6.6	S	37.7%	4	13%	12%
Sasseur REIT	804	2,071	0.90	0.6	2.3	4.1	9.1	14.0	67.3	9.1	68.9	(1.1)	1.0	7.7	8.0	4.5	Q	27.8%	1.1	70%	7%
Cromwell European REIT	1,513	1,391	0.46	1.1	3.4	4.5	(4.2)	(2.1)	43.8	(4.2)	43.8	(9.8)	0.9	9.3	9.6	9.7	S	38.8%	5	16%	9%
Elite Commercial REIT	432	141	0.67	(0.7)	0.8	(0.7)	4.6	10.5	18.0	4.6	19.0	(2.2)	1.1	7.5	7.4	7.5	S	33.1%	7.8	0%	0%
United Hampshire REIT	328	228	0.66	(1.5)	0.0	(3.6)	0.0	13.8	34.7	0.0	40.4	(5.0)	0.87	6.5	7.6	6.5	S	36.2%	8.4	3%	9%

Note: Closing price as at 4 Apr 2021

Source: Bloomberg, RHB

Key Risks

Short land tenures – medium

Industrial asset leases in Singapore, in general, have a shorter land tenure – a typical land tenure is c.30 years or below. AAREIT's portfolio assets currently have a remaining average land lease expiry of c.34.8 years by NLA (assuming 99 years for Australian freehold assets). The shorter leases are mainly due to government policies to award industrial sites on shorter land tenures.

While AAREIT is likely to redevelop/enhance the asset and apply for the extension of land leases closer to expiry – or might potentially consider divesting the asset – there are no guarantees that the leases might be extended by the authorities. This might result in the loss of capital value to unitholders.

Non-renewal of master leases – medium

About 35% of rental income for 3QFY21 was derived from master leases. The non-renewal of such leases upon expiry and transitional downtime could result in a temporary occupancy drop, along with higher property expenses, and could subject AAREIT to the fluctuations of industrial market rents.

Key tenant default risks – low

The Top 10 tenants accounted for 47% of total rental income for 3QFY21. Any default in rental payments by key tenants could have an adverse effect on the amount of distributable income. However, the REIT holds a tenant security deposit (typically 3 months) which can be used to buffer the impact.

Major shareholder tussles – low

Hong Kong-listed ESR Cayman – Asia-Pacific's leading logistics real estate platform – is the single largest shareholder of the REIT with a 13% stake, while AAREIT's chairman and founding executive of sponsor George Wang hold an 8% stake. While we generally see this as positive with future potential for collaboration and M&A, any potential disagreements between the major shareholders on key decisions could negatively weigh on the share price.

Prolonged rise in treasury yields – market driven

The recent spike in 10-year treasury yields – generally used as a benchmark for risk-free rates – has resulted in an underperformance of the REIT sector. Our view is that the 10-year yields are expected to normalise in 2H21, as economic recovery continues to remain patchy and central banks are still guiding for a prolonged low interest rate environment until 2023.

However, a continued spike in treasury yields without accompanying economic growth could be negative for AAREIT, and the REIT sector in general.

Property damage from natural calamities – very low

Although its properties are covered by insurance, AAREIT might not be able to fully recover the loss of property income due to natural calamities.

Industry Outlook – Singapore's Industrial Sector

Industrial sector demand on a strong recovery path

Singapore's GDP shrank 5.4% in 2020 – slightly better than the official contraction forecast of 6-6.5%. GDP shrank 2.4% YoY in 4Q, an improvement from the 5.8% contraction seen during the previous quarter. Looking ahead, we expect economic recovery to pick up pace and GDP to grow 5.5% in 2021. The growth will be predominantly driven by the manufacturing sector, which has been on an expansionary trend since 3Q20. The Ministry of Trade & Industry (MTI) also recently announced a new 10-year plan to grow Singapore's manufacturing sector by 50% during the next decade and maintain its share of about 20% of GDP.

The country's manufacturing output increased 16.4% YoY in February (excluding volatile biomedical manufacturing – its output grew 13.6% YoY). On a 3-month moving average basis, manufacturing output increased 13.9% in Feb 2021 vs a year ago. Growth was driven by key clusters: Electronics (30.3% YoY), biomedical manufacturing (23.9% YoY), and precision engineering (15% YoY)

February's Purchasing Managers' Index (PMI) also showed a positive trend at 50.5, marking an eighth straight month of expansion for the overall manufacturing sector, according to the Singapore Institute of Purchasing & Materials Management (SIPMM). The latest PMI reading was attributed to lower expansion rates in the indices of new orders, new exports, factory output, and a faster rate of supplier deliveries, SIPMM said.

Similarly, non-oil domestic exports (NODX) grew 4.2% MoM in February, the third month of increase following the 12.7% expansion in January and 6.8% expansion in the month before. The increase was mainly due to shipments of non-electronic products, such as non-monetary gold, specialised machinery, and petrochemicals, said trade agency Enterprise Singapore. Electronic NODX grew 7.4% after an expansion of 13.5% in January. Shipments of personal computers, telecommunications equipment, and diodes & transistors contributed the most to the increase.

Fixed asset investments for 2020 hit decade high. Based on the latest Economic & Development Board (EDB) data, fixed asset investments in Singapore amounted to SGD17.2bn last year, far exceeding its medium- to long-term annual investment commitment goals of SGD8-10bn and the highest since 2008. Electronics and chemicals were the top two sources of investment commitments in 2020, accounting for 37.7% and 24%. The increased investments are positive for industrial demand, as well as boosting the jobs market.

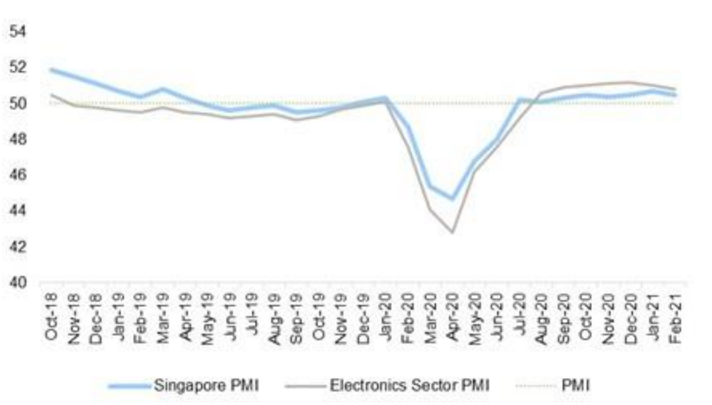
Electronics and pharmaceuticals drive exports recovery. Our economics team has noted that the continuous global demand from semiconductors should continue to drive exports for electronics products – following the spurt from the 5G market, data centres, and cloud services. PMI for manufacturing and new orders have been hovering above the 50-pt threshold since Jul 2020 and Sep 2020 – supporting resilience in production demand.

The pharmaceutical sector, although volatile, should also expect a pick-up in growth, given the increase in demand for active pharmaceutical ingredients (API) and drugs following the resurgence in infections in some of Singapore's top markets, as well as global efforts in ramping up production of COVID-19 vaccines.

Figure 26: Manufacturing output growth

Source: EDB

Figure 27: PMI



Source: SIPMM

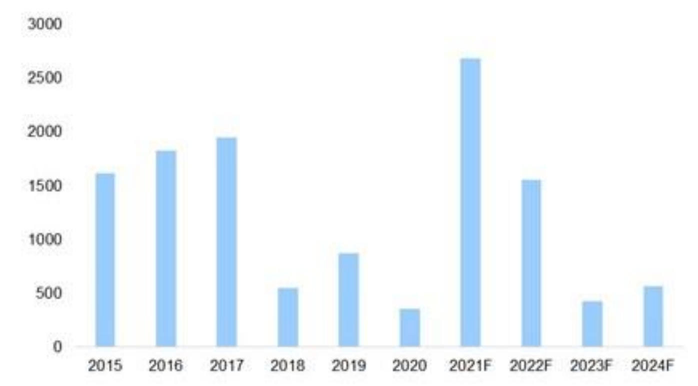
Industry 4.0 to boost high-tech industrial demand. In tandem with the Smart Nation initiative, the industrial landscape is moving towards the next generation of the industrial revolution. The industry 4.0 initiatives are increasingly evident, as JTC Corp (JTC) announced more facilities to consolidate and create industrial clusters. Developers are also rejuvenating their properties in anticipation of the demands from newer industries.

Supply remains high, mainly comprising factory space. Based on JTC's latest data, about 2.7m sq m of new industrial space is expected to be completed in 2021. About 0.5m sq m of projects were delayed from 2020 due to the impact of construction delays on the back of COVID-19.

Around 43% of the upcoming supply is single-user factory space, 33% of the supply is multiple-user factory space, and the remaining 24% comprises warehouse and business park spaces. JTC also noted that delays in completion could continue to push back some of this supply, as the construction industry continues to face manpower and raw material constraints. Supply post 2021 is expected to slow down considerably, with a known supply of 1.7m sq m between 2022 and 2024, or 0.6m sq m pa.

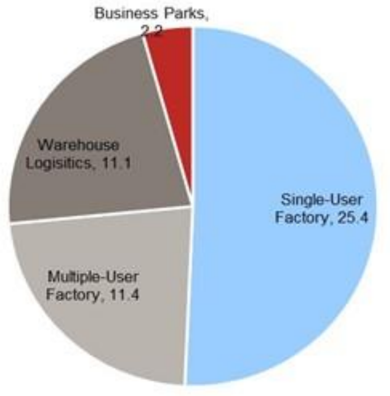
Occupancy and rentals creeping up. As at end 4Q20, the industrial sector's overall occupancy rose 0.3ppts QoQ to 89.9%, while rents rose 0.1% QoQ. Prices for industrial buildings inched up 1% QoQ in 4Q20. Overall, we expect industrial occupancy rates to remain at around 90% levels for 2021 with rental rates staying flattish.

Figure 28: Industrial supply (sq m)



Source: JTC

Figure 29: Industrial stock split end 2020 (m sq m)



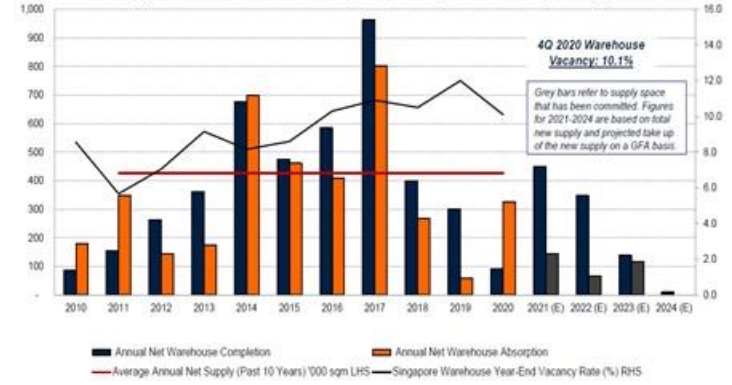
Source: JTC

High demand continues to push up logistics sector rent. According to Cushman & Wakefield (C&W), prime logistics rents – which have risen 1.7% YoY in 2020 – will continue to outperform on an e-commerce boom and preference for ramp-up logistics facilities. Also, conventional warehouses rents have largely remained resilient and grew 0.3% during this period.

Similarly, CBRE noted that healthy warehouse leasing demand contributed to an increase in rent – this was tracked by its research arm in 4Q20. Ground floor warehouse rent rose by 0.6% QoQ to SGD1.58psf per month, while upper floor warehouse rent grew 0.8% to SGD1.20psf per month.

This demand in the warehouse/logistics segment was driven mainly by third-party logistics and e-commerce players, which have been expanding their presence. Robust leasing appetite for warehouse has also translated into higher rents. We expect the momentum to continue and expect the overall logistics/warehouse sector rents to rise 2-5% in 2021.

Figure 30: Warehouse annual net completion, absorption and vacancy rate



Source: JTC

Figure 31: Factory and warehouse leasing volumes (m sq m)

Source: JTC, Savills Research & Consultancy

C&W noted in its recent report that overall high-tech and conventional factory rents have declined in tandem with weak economic conditions. For 2021, the former should stabilise, bolstered by bio-medical and electronics demand. On the other hand, conventional factory rents are expected to remain weak, amidst an uncertain economic recovery and continued slowdown in construction activities.

Mixed outlook for the business parks segment. Based on the latest C&W report, city fringe business parks rents have risen by 1.6% for the whole of 2020 and are expected to continue to rise in 2021 on a flight-to-value trend for quality business parks. Outlying business parks rents have fallen 5.3% in 2020, but this was mainly due to older stock in the submarket. Science park rents registered mild growth in 2020, growing 0.3% YoY.

Tenants are seen gravitating towards newer business park buildings and high-spec spaces that have better specifications – all of which have the ability to command higher rents. This preference is expected to persist, given the growth of technology firms in Singapore.

Australia: Accommodative policy and shifting consumer behaviour supportive of industrial sector

In Australia, the Reserve Bank of Australia (RBA) has maintained its policy setting after its most recent meeting in March, with official interest rates at 0.10%. This marks the lowest rate in the central bank's monetary policy history. Given the outlook for employment and inflation, RBA has stated that interest rates are not expected to increase for at least three years, as monetary and fiscal supports will be required for some time.

The industrial outlook continues to be supported by shifts in consumer behaviour towards e-commerce and increased business activities in the advanced manufacturing and ICT industries. As AAREIT's assets in Australia are well supported by long master leases, we believe the REIT is immune to near-term volatilities.

Sponsor Details And REIT Evolution

AIMS is the sole sponsor of AAREIT. Established in 1991, it is a diversified financial services and investment group – active in the areas of mortgage lending, securitisation, investment banking, funds management, property investment, stock broking, and high-tech investment. AIMS is also a strategic investor in the Sydney Stock Exchange (SSX).

Since 1999, the group has raised approximately AUD4bn in funds from the capital markets. Of this, AIMS has issued approximately AUD3bn in residential mortgage-backed securities, with most of them rated AAA by both Standard & Poor's and Fitch Ratings, and has originated over AUD9bn in mortgages since 1991.

Since 2009, ie after the GFC, AIMS had total acquisitions and investments amounting to approximately AUD3bn in assets. The group has also attracted a number of international investors into the Australian market, and is the investment manager for various funds.

AIMS' head office is in Sydney, Australia, and has businesses across the island continent, China, Hong Kong, and Singapore. It's highly qualified, professional, and experienced cross-cultural teams enable AIMS to bridge the gap between Australia and Asia across various sectors.

Turnaround of MacarthurCook and evolution of AAREIT

During the GFC, AIMS expanded its business in a time when many others were experiencing immense difficulties. In Oct 2008, the group acquired the SSX.

In Apr 2009, AIMS became the largest shareholder of ASX-listed fund manager MacarthurCook. In Aug 2009, the group's holdings increased to 54% and, by Nov 2009, AIMS' became the 100% owner of MacarthurCook. The latter was subsequently delisted from the ASX.

At the time of acquisition, MacarthurCook's fund management business was severely distressed, with each of the four listed funds – and a number of unlisted funds – starved of capital and management expertise. Under AIMS' leadership, MacarthurCook's funds have been turned around, stabilised and outcomes improved for investors.

An example of this was SGX-listed MacarthurCook Industrial REIT (MI-REIT) – now known as AAREIT. At the time of the AIMS acquisition of MacarthurCook in 2009, MI-REIT was a vehicle in distress. It had an obligation to refinance SGD220.8m and purchase a SGD90.2m property that its previous management had entered into in 2007 – without first securing finance.

As at 31 Mar 2009, MI-REIT's market capitalisation and total assets were approximately SGD60.2m and SGD544m. In Dec 2009 MI-REIT was renamed AIMS AMP Capital Industrial REIT or AA-REIT. AA-REIT was initially a 50:50 JV between AIMS and AMP Capital. On 28 Mar 2019, the former bought out the latter's 50% holdings and the REIT took on its new name. AAREIT has grown significantly since then and, as at Dec 2020, it has a portfolio value of SGD1.7bn.

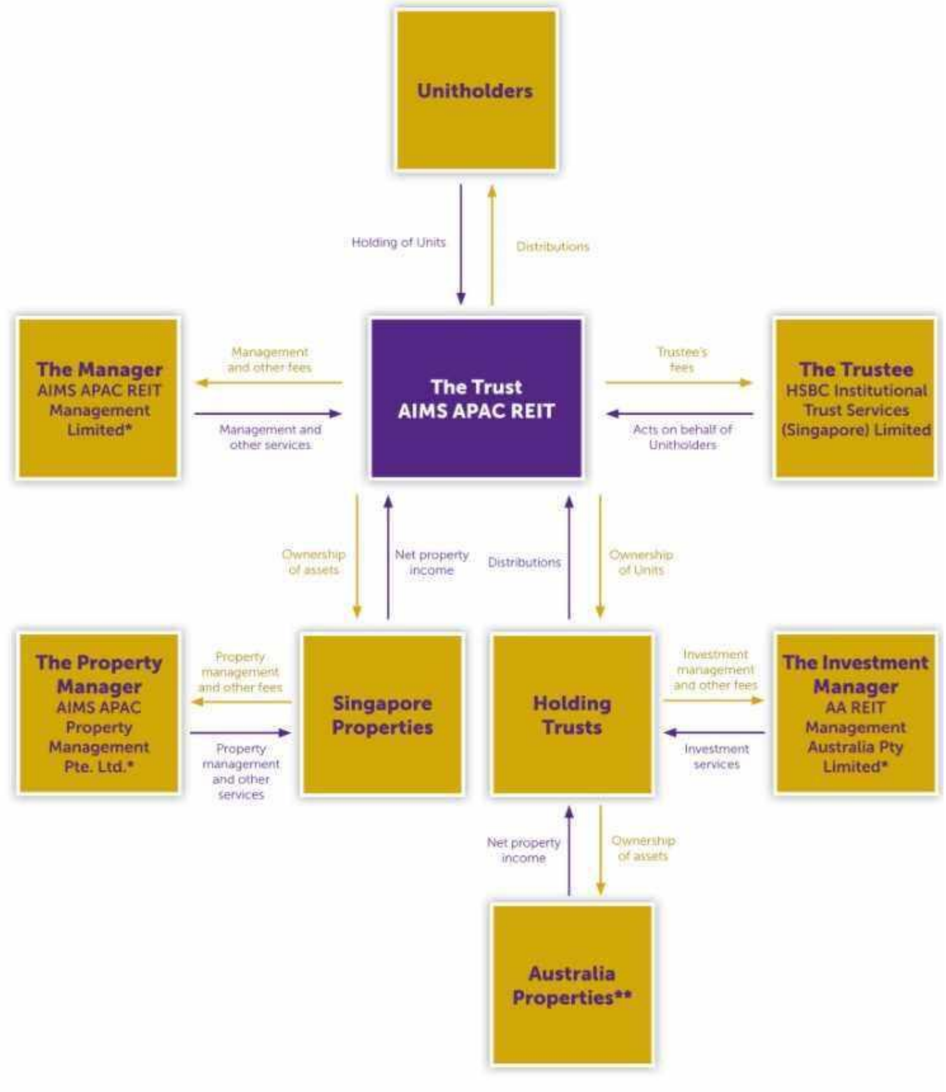
Company Background And Structure

AAREIT is a REIT listed on the Mainboard of the SGX since 2007. Its principal investment objective is to invest in a diversified portfolio of income-producing industrial, logistics, and business park properties throughout the Asia-Pacific region. The real estate assets can be utilised for a variety of purposes, including – but not limited to – warehousing and distribution, business park, and manufacturing activities.

AAREIT's REIT manager, AIMS APAC REIT, is indirectly held by its sponsor, AIMS. Similarly, its property manager in Singapore – AIMS APAC Property Management – and investment manager in Australia – AA REIT Management Australia – are also indirectly held by its sponsor and receives fees for services provided. The trustee for the REIT is HSBC Institutional Trust Services.

The following diagram illustrates the relationship between AAREIT, the manager, trustee, property manager, and unit holders.

Figure 32: AAREIT's trust structure



* Indirectly owned by AIMS Financial Group.

** The Australian properties are Optus Centre and Boardriders Asia Pacific HQ. Optus Centre is held through a joint venture and the joint venture partners have certain pre-emptive rights that may be triggered if there are changes in the trust ownership structure.

Source: Company

Key Management Information

Figure 33: Board of directors and key management team

Management name	Designation	Responsibilities and background
George Wang	Chairman, Non-Executive Non-Independent Director and Member of the Nominating & Remuneration Committee	Wang was appointed as a Director on 7 Aug 2009 and reprised the role as Chairman of the manager on 16 Jan 2014. He was previously Chairman from 7 Aug 2009 to 19 Apr 2012. Wang is the founding Executive Chairman of AIMS Financial Group and an active participant in both the Australian and Chinese financial services industries. He is also the Deputy Chairman of SSX. Wang is also the Executive Chairman of AIMS Fund Management, the responsible entity for AIMS Property Securities Fund, a diversified real estate securities fund, which is listed on the ASX and SGX. Wang is the President of the AustChina Finance & Investment Council. As President of this council, he has been laying the foundation for the financial bridge between Australia and China for many years, closely following the development of the Chinese financial sector while, at the same time, building a professional team. Wang is also a patron of the Taronga Foundation, which is affiliated with the Taronga Zoo based in Sydney, Australia, which operates wildlife conservation programmes.
Ko Kheng Hwa	Non-Executive Lead Independent Director, Chairman of the Nominating & Remuneration Committee and Member of the Audit, Risk & Compliance Committee	Ko Kheng Hwa is currently Chairman of Envision Digital International and Senior Advisor to Envision Digital Group. Headquartered in Singapore, the group provides Artificial Intelligence of Things (AIoT) digital platform and solutions for smart energy and smart city globally. He is an Independent Director of public listed Ho Bee Land. He also serves as Senior or Expert Advisor to several companies. Public sector leadership positions previously held by Ko included Managing Director of the Economic Development Board, CEO of JTC Corp and CEO of the National Computer Board. Business sector leadership appointments held included CEO of Singbridge International Singapore (a Temasek-linked company), CEO of Sustainable Development & Living Business Division of Keppel Corp, Director of China-incorporated JVs that master developed the Sino-Singapore Guangzhou Knowledge City and Sino-Singapore Tianjin Eco-City, and Chairman of former NASDAQ-listed Pacific Internet.
Peter Michael Heng	Non-Executive Independent Director, Member of the Audit, Risk & Compliance Committee and Member of the Nominating & Remuneration Committee	Heng has over 31 years of investment management experience. Before this appointment, he held the position of Senior Vice President and Chief Investment Officer at NTUC Income Co-operative from 2009 until his retirement in 2015. Prior to that, Heng served as the Chief Investment Officer of Manulife Asset Management (Singapore), and Straits Lion Asset Management.
Steven Chong Teck Sin	Non-Executive Independent Director, Chairman of the Audit, Risk & Compliance Committee, and Member of the Nominating & Remuneration Committee	Chong has 32 years of experience in technology, business, finance, and general management. From 1986 to 2004, he served in various directorial and management positions with Seksun Corp (subsequently known as Enporis Greenz), Glaxo Wellcome Asia Pacific, China-Singapore Suzhou Industrial Park Development, Standard Chartered Bank, and the Economic Development Board. He has also served as a board member of the Accounting & Corporate Regulatory Authority (ACRA) from 2004-2010 and the National Kidney Foundation from 2008-2010, and as ACRA's Investment Committee Chairman. Chong has over 19 years of experience as an independent director and currently serves as Independent Director and Audit Committee Chairman for Civmec, InnoTek Ltd, and Accordia Golf Trust Management. He is also an Independent Director of Changan Minsheng APLL Logistics – a leading automobile logistics firm in China that is listed on the mainboard of the HKEX. Chong has also served as an independent director with various companies listed on the Singapore and Australia stock exchanges.
Koh Wee Lih	Executive Director and Chief Executive Officer	Koh joined the manager in Dec 2008 and was appointed the Chief Executive Officer of the manager on 1 Jan 2014. He was subsequently appointed as a Director on 29 Jan 2014. Prior to this appointment, Koh had been the Head of Real Estate for the manager since October 2011 and its Senior Investment Manager before that. As the CEO of the manager, Koh is responsible for the overall planning, management and operation of the trust. He works closely with the Board of Directors to determine business strategies for the strategic development of the trust. Koh has over 22 years of experience in investment, corporate finance and asset management, of which more than 14 years are in direct real estate, covering investments, developments, asset management and real estate private equity in the Asia-Pacific region.
Stella Yeak	Vice President, Finance and Joint Company Secretary	Yeak has been with the manager since Feb 2013 and has over 19 years of experience in group financial and management reporting, budget and forecasting, financial controls, audit, taxation and compliance with regional exposure in South-East Asia, North Asia, and Australia, of which more than 14 years were in the real estate industry. Following her appointment as the Vice President, Finance and Joint Company Secretary of the manager on 31 May 2017, Yeak is responsible for the financial accounting and reporting, capital management, taxation, compliance, as well as corporate secretarial matters of AAREIT.
Russell Ng	Director, Capital Transactions & Partnerships	Ng joined the manager in Sep 2020 and is responsible for capital transactions (comprising acquisitions and divestments) and developing capital and business partnerships across the platform. He has over 17 years of experience in direct real estate investments, asset management and corporate financing in Asia and Australia. Prior to joining the manager, Ng held senior fund and investment management roles with Lendlease, AEP Investment Management, and Mapletree.

Source: Company, RHB

Appendix: Assets Summary

Figure 34: AAREIT property details

		Singapore			
S.No	Name of the Valuer	Description of Property	Lease Type	Occupancy* (%)	Latest Valuation* (SGDm)
			Logistics And Warehouses		
1	CBRE	20 Gul Way	Multi-tenanted	87.4	224.1
2	Cushman & Wakefield	27 Penjuru Lane	Multi-tenanted	88.5	163.0
3	CBRE	8 & 10 Pandan Crescent	Multi-tenanted	90.0	149.3
4	CBRE	30 Tuas West Road	Part master lease, part multi tenanted	61.0	55.4
5	CBRE	103 Defu Lane 10	Multi-tenanted	100.0	33.2
6	Cushman & Wakefield	3 Toh Tuck Link	Multi-tenanted	100.0	24.5
7	CBRE	10 Changi South Lane	Multi-tenanted	100.0	22.9
8	Cushman & Wakefield	11 Changi South Street 3	Multi-tenanted	80.8	21.2
9	Cushman & Wakefield	56 Serangoon North Avenue 4	Multi-tenanted	77.8	19.4
10	CBRE	7 Clementi Loop	Multi-tenanted	94.2	12.2
11	Savills	7 Bulim Street	Master lease	100.0	130.0
			Hi Tech		
12	Cushman & Wakefield	29 Woodlands Industrial Park E1	Multi-tenanted	100.0	116.5
			Business Park		
13	Cushman & Wakefield	1A International Business Park	Multi-tenanted	61.0	80.0
			Light Industrial		
14	CBRE	15 Tai Seng Drive	Multi-tenanted	69.1	33.7
15	Cushman & Wakefield	1 Bukit Batok Street 22	Multi-tenanted	90.8	25.9
16	CBRE	23 Tai Seng Drive	Multi-tenanted	100	24.4
17	Cushman & Wakefield	135 Joo Seng Road	Multi-tenanted	88	20.6
18	Cushman & Wakefield	1 Kallang Way 2A	Multi-tenanted	100	12.1
19	Savills	315 Alexandra Road**	Part master lease, part multi tenanted	98.3	104.7
			General Industrial		
20	CBRE	3 Tuas Avenue 2	Master lease	100	54.3
21	CBRE	51 Marsiling Road	Master lease	100	46.1
22	CBRE	8 Tuas Ave 20	Multi-tenanted	100	28.6
23	CBRE	61 Yishun Industrial Park A	Multi-tenanted	51.7	19.6
24	CBRE	2 Ang Mo Kio Street 65	Master lease	100	16.4
25	Cushman & Wakefield	541 Yishun Industrial Park A	Master lease	100	14.5
26	Cushman & Wakefield	8 Senoko South Road	Master lease	100	13.0
27	Cushman & Wakefield	26 Tuas Avenue 7	Master lease	100	11.9
			Australia		
S.No	Name of the Valuer	Description of Property	Lease Type	Occupancy* (%)	Latest Valuation* (AUDm)
			Business Park		
28	Knight Frank	Optus Centre, 1-5 Lyonpark Road, Macquarie Park, New South Wales, Australia (49%)	Master lease	100	286.2
			Light Industrial		
29	CBRE	Boardriders APAC HQ, 209-217 Burleigh Connection Road,	Master lease	100	39.0

*Note: *As of Mar 2020, except 7 Bulim Street and 315 Alexandra Road, which were recently acquired*
*Note 2: **Proposed acquisition*
Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-04-07			

Source: RHB, Bloomberg

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