

3 August 2022

Property | REITS

Ascendas REIT (AREIT SP)

Buy (Maintained)

Good Operational Improvements; a Top Pick

Target Price (Return): SGD3.60 (+22%)
 Price (Market Cap): SGD2.96 (USD9,033m)
 ESG score: 3.33 (out of 4)
 Avg Daily Turnover (SGD/USD) 31.7m/23.0m

- **Keep BUY and SGD3.60 TP, 22% upside and c.5% yield.** 2Q/1H22 DPU came in line with our expectations. 2Q saw strong operational improvement in terms of occupancy and stronger rental reversion, indicating that the industrial market remains on solid footing. Acquisition pace is expected to slow down but organic growth and asset enhancements should offset cost increases and drive DPU growth. Amidst the current volatile market, we expect investors to prefer defensive industrial S-REITs over other sectors.
- **1H DPU up 3.5% YoY/3.6% HoH,** aided by higher revenue from acquisitions and development completions, but partially offset by higher utility expense for Singapore assets. Management noted that Singapore utility cost rose within its guided range of 50-70% (our estimate of Ascendas REIT's impact SGD5-6m for 1H or c.2% of DPU) based on its new contract, which is valid until end-2022. AREIT is currently negotiating utility contracts for next year with indications that costs are likely to inch up slightly higher (10-20%). It will be raising its service charges for Singapore assets from 4Q, which should help absorb some of the cost increases. Interest costs were down 10bps to 2.1% on the back of longer tenure EUR and HKD bonds issued last year. 80% of its debt is hedged, with every 50bps increase resulting in 1% DPU impact.
- **Healthy improvement in operating metrics.** Portfolio occupancy rose 1.6ppts QoQ to 94% – Singapore (+1.2ppts QoQ), the US (+1.3ppts QoQ) and the UK/Europe (+1ppt QoQ), with slight decline in Australia (-0.2ppt QoQ). The improvements came mainly from the logistics segment, which has been seeing continued demand growth from increasing supply chain disruptions resulting in longer stockpiling. Looking ahead, high occupancy is likely to be maintained across the markets barring the US where there could be some pressure from potential non-renewal of business park asset leases due in 2H. Rent reversions accelerated in 2Q at +13.2% (1Q: +4.6%, 1H: +8.9%) with all markets seeing double-digit rent uplift, indicating it is still a landlords' market.
- **Acquisition pace is expected to slow down,** with management noting its SGD1bn acquisition target looking less likely in 2022 (1H: SGD223m). With current volatility, market acquisitions are likely to be more piecemeal in nature rather than portfolio as the latter involves extended timeframe and premium valuations, which are unfavourable in current market conditions. Gearing is comfortable at 36.7%, presenting >SGD1bn debt headroom for any sponsor of third party acquisitions.
- **No changes to estimates.** 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 apply a 6% premium to our intrinsic value to derive our TP.

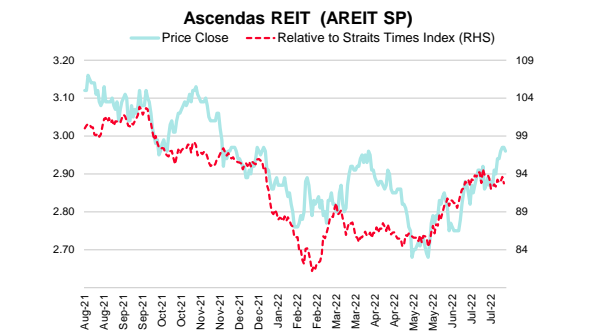
Analyst

Vijay Natarajan
 +65 6320 0825
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.3	5.0	3.5	7.2	(5.1)
Relative	(3.4)	0.4	7.0	7.5	(7.6)
52-wk Price low/high (SGD)				2.68	– 3.16



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,302	1,335	1,386
Net property income (SGDm)	776	921	970	992	1,019
Reported net profit (SGDm)	457	957	747	585	597
Total distributable income (SGDm)	431	455	506	521	531
DPS (SGD)	0.15	0.15	0.16	0.16	0.17
DPS growth (%)	26.3	3.9	4.8	2.4	1.6
P/B (x)	1.22	1.22	1.24	1.24	1.24
Dividend Yield (%)	5.0	5.2	5.4	5.5	5.6
Return on average equity (%)	5.5	10.1	7.5	5.8	6.0
Return on average assets (%)	3.2	5.8	4.2	3.2	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) out of its total portfolio (49), largest number of public EV charging points (76), and largest combined solar farm (>21,000 solar panels) in Singapore by an S-REIT.

S: GOOD

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

G: EXCELLENT

High level of transparency in financial announcements and earnings releases. 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	0.14
Ascendas REIT	DPS (SGD)	0.15	0.15	0.16	0.16	0.17
AREIT SP	BVPS (SGD)	2.43	2.42	2.38	2.38	2.38
Buy	Return on average equity (%)	5.5	10.1	7.5	5.8	6.0
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.23	4,203.88	4,209.86
Valuation basis						
DDM	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	21.07	12.81	16.65	21.52	21.09
	P/E (x)	22.32	12.05	16.50	21.27	20.86
	P/B (x)	1.2	1.2	1.2	1.2	1.2
	FCF Yield (%)	5.5	4.9	8.9	9.0	8.9
	Dividend Yield (%)	5.0	5.2	5.4	5.5	5.6
	EV/EBITDA (x)	- 2.12	- 2.51	- 2.55	- 2.55	- 2.53
	EV/EBIT (x)	- 2.13	- 2.51	- 2.55	- 2.55	- 2.53
Key drivers						
i. Diversified industrial assets with high exposure to business parks and logistics sector;						
ii. Largest and most liquid in S-REIT space;						
iii. Strong and capable Sponsor.						
Key risks						
i. High industrial supply and shorter land leases in Singapore;						
ii. Tenant defaults and rental pressure;						
iii. Government policy measures impacting the industrial space.						
Company Profile						
Ascendas REIT is a property trust constituted by a trust deed. AREIT owns and invests in a diverse, income producing portfolio of business park (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.						
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	1,049	1,227	1,302	1,335	1,386
	EBITDA	702	820	863	884	910
	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	863	884	910
	Net interest	(159)	(159)	(172)	(185)	(197)
	Pre-tax profit	494	1,044	783	621	634
	Taxation	(37)	(86)	(36)	(36)	(37)
	Recurring net profit	484	901	740	578	591
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	20	(83)	158	169	143
	Cash flow from operations	729	727	1,123	1,156	1,155
	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(30)	(30)	(50)
	Dividends paid	(598)	(378)	(506)	(521)	(531)
	Cash flow from financing activities	479	1,277	(988)	(1,108)	(1,095)
	Cash at beginning of period	96	278	369	473	490
	Net change in cash	223	89	104	18	11
	Ending balance cash	278	369	473	490	501
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	278	369	473	490	501
	Total investments	14,318	16,898	17,013	17,128	17,264
	Total other assets	453	376	382	387	396
	Total assets	15,123	17,730	17,944	18,084	18,242
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	5,041	5,341	5,441
	Total liabilities	5,933	7,453	7,640	7,762	7,900
	Shareholders' equity	8,892	9,978	10,005	10,023	10,043
	Minority interests	299	299	299	299	299
	Total equity	9,191	10,277	10,304	10,322	10,342
	Net debt	4,210	5,366	5,543	5,625	5,714
	Total liabilities & equity	15,123	17,730	17,944	18,084	18,242
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	50.1	16.9	6.1	2.5	3.8
	Recurrent EPS growth (%)	12.3	64.5	(23.1)	(22.6)	2.0
	Operating EBITDA margin (%)	66.9	66.9	66.3	66.2	65.7
	Net profit margin (%)	43.6	78.0	57.4	43.8	43.1
	Dividend payout ratio (%)	117.8	65.8	90.0	117.8	117.4
	Capex/sales (%)	16.3	13.0	2.3	2.2	3.6
	Interest cover (x)	4.38	5.16	5.02	4.77	4.61

Source: Company data, RHB

Figure 1: AREIT's DDM valuation

	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SG cents)	16.0	16.4	16.9	17.4	361.8
Fair value (SGD)	3.40				
ESG Premium/(discount)	0.20				
Target Price (SGD)	3.60				
Current price (SGD)	2.96				
Price upside (%)	21.6				
Distribution yield (%)	5.4				
Total returns (%)	27.0				
Assumptions:					
Risk-free rate (%)	2.8				
Beta	0.7				
Cost of equity (%)	6.4				
Terminal growth (%)	1.5				

Source: RHB

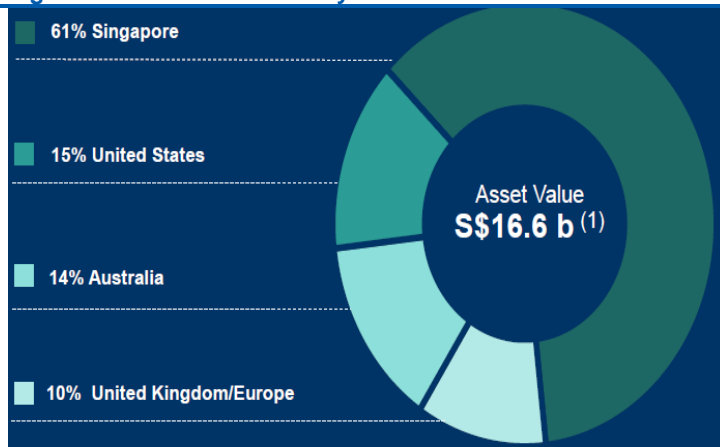
Figure 2: Strong positive rent reversions across markets and segments in 2Q

% Change in Renewal Rates for Multi-tenant Buildings ⁽¹⁾	2Q 2022	1Q 2022	2Q 2021
Singapore	13.0%	3.9%	3.4%
Business Space ⁽²⁾ and Life Sciences ⁽³⁾	19.9%	3.6%	3.7%
Logistics ⁽⁴⁾	7.5%	1.5%	1.8%
Industrial ⁽⁵⁾ and Data Centres	4.4%	4.4%	6.1%
Australia	15.2%	16.5%	-(6)
Business Space	-(6)	16.5%	-(6)
Logistics	15.2%	-(6)	-(6)
United States	15.3%	14.0%	26.3%
Business Space	15.3%	12.2%	26.3%
Logistics	-(6)	26.4%	N.A.
United Kingdom/Europe	11.7%	-(6)	-(6)
Data Centres	11.7%	-(6)	-(6)
Logistics	-(6)	-(6)	-(6)
Total Portfolio :	13.2%	4.6%	8.9%

- (1) Percentage change of the average gross rent over the lease period of the renewed leases against the preceding average gross rent from lease start date. Takes into account renewed leases that were signed in their respective periods and average gross rents are weighted by area renewed.
- (2) Business Space segment includes properties located in business & science parks in Singapore, suburban offices in Australia as well as business park and office properties in USA.
- (3) Life Science segment comprises properties with lab-ready specifications (currently 7 business park properties in Singapore)
- (4) Includes Courts Megastore and Giant Hypermart which have been reclassified from Integrated development, amenities and retail (IDAR) segment. These properties have large warehouse spaces (under the Retail Warehouse Scheme).
- (5) Comprises high-specifications and light industrial properties (includes Aperia which has been reclassified from IDAR segment given its predominant industrial space offering).
- (6) There were no renewals signed in the period for the respective segments.

Source: Company data

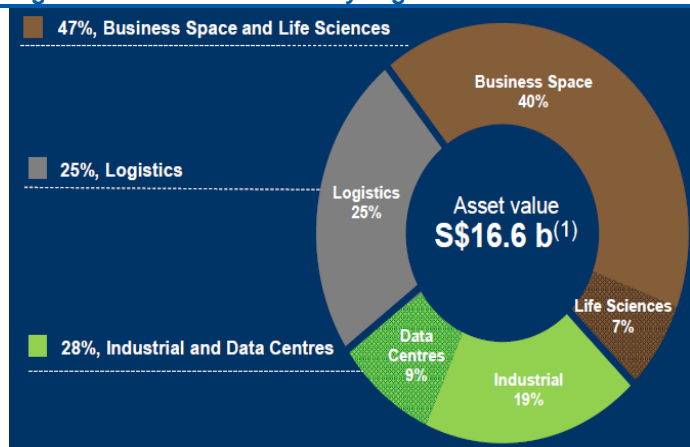
Figure 3: Asset breakdown by market



Note: ¹ comprises of 227 assets and excl. one in Singapore currently under redevelopment

Source: Company data

Figure 4: Asset breakdown by segments



Note: ¹ comprises of 227 assets and excl. one in Singapore currently under redevelopment;

Source: Company data

Recommendation Chart

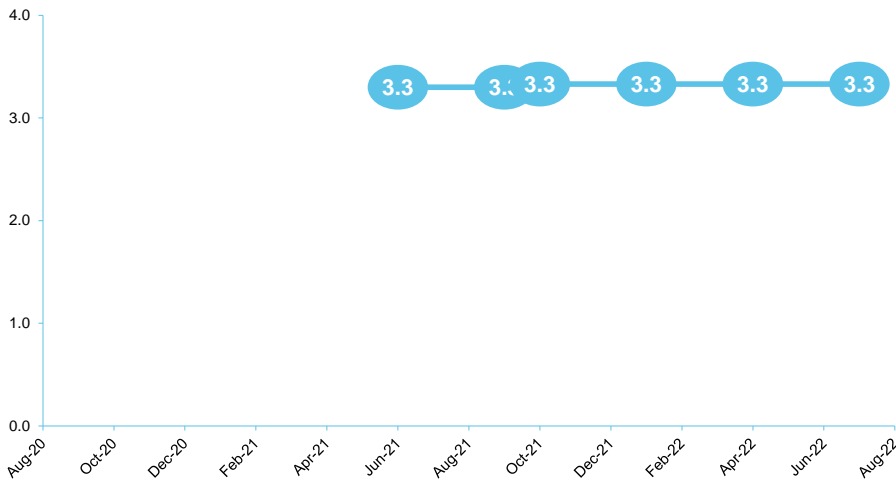


Source: RHB, Bloomberg

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

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

JAKARTA

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

BANGKOK

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

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470