

9 February 2022

Property | REITS

Ascendas REIT (AREIT SP)

Buy (Maintained)

Turnaround On Cards; Stay BUY

Target Price (Return): SGD3.60 (28.6%)
 Price (Market Cap): SGD2.80 (USD8,738m)
 ESG score: 3.33 (out of 4)
 Avg Daily Turnover (SGD/USD) 30.1m/22.2m

- **Maintaining BUY and TP at SGD3.60 29% upside and 6% yield.** FY21 results were broadly inline. Management guided for a fairly optimistic outlook across all its markets on the back of resilient demand. Share price has underperformed, relative to the sector, over the past 12 months which we believe is due to a combination of fund raising overhang, concerns over operations, and interest rate hikes. However with strengthening operational metrics and rate hikes largely priced in, we expect a turnaround this year.
- **2H/FY21 DPU was up 3.4%/3.9% YoY** driven by acquisition contributions, lower rent rebates offered, and operational improvement but came in a tad below our FY estimates (c.98%). Net property income (NPI) margin is likely to come under pressure from rising operating costs (higher utility cost in particular) but management sees this as manageable with some costs likely to be passed through. Portfolio valuation (same-store basis) rose 3.3% YoY driven mainly by cap rate compression for logistic assets in Australia and the UK. About 80% of its debt is hedged, with every 20 bps rise in interest rates having a minimal -0.4% impact to distribution.
- **Potential to unlock value from redevelopments.** Management sees potential to redevelop some of its light industrial assets in North-Eastern Singapore to data centres (DC) with the expected lifting of DC moratorium. We also see medium-term potential to unlock value from redevelopment of its science park assets which account for c.10% of its value. Three assets currently under development in Australia (total SGD250m) are also expected to complete this year boosting recurring income (c.2%). Acquisition pace is likely to slow down by 30 -50% from SGD1.9bn in FY21 with focus mainly on logistics, DC, and tech campuses. Gearing is on the low side at 35.9% (vs sector's 37%) presenting SGD1-2bn debt headroom.
- **Healthy occupancy improvement** across markets with overall occupancy increasing 1.5ppt QoQ to 93.2% (Singapore and Australia: +1.7ppt, the US +2.1ppt, and the UK -1.5ppt). Occupancy for its portfolio in Singapore rose on the back of strong demand for logistics and business space driven by demand from biotech and tech firms. Management expects healthy occupancy levels to be maintained despite an increase in supply as demand remains strong.
- **Positive rent reversions to continue in low to mid-single digits** due to better occupancy and demand. For FY21 its portfolio saw healthy rent reversion +4.5% (Figure 5) with all segments and markets registering positive growth (highest growth: in the US +22.6% and the UK +6.2%).
- **A pioneer in ESG among industrial REITs** with the highest number of green-certified assets. This is reflected on our high ESG score of 3.33 (highest among REITs) out of 4.0, based on our proprietary in-house methodology. As this score is three notches above our country median ESG score, we applied a 6% premium to our intrinsic value.

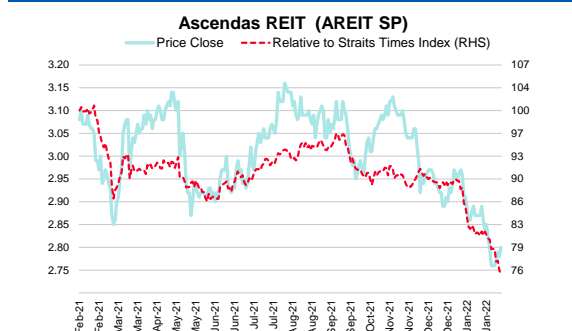
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.1)	(3.8)	(10.0)	(10.8)	(9.1)
Relative	(14.0)	(9.9)	(14.2)	(17.9)	(25.1)
52-wk Price low/high (SGD)	2.76 – 3.16				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,294	1,327	1,377
Net property income (SGDm)	776	921	968	990	1,017
Reported net profit (SGDm)	457	957	748	588	601
Total distributable income (SGDm)	431	455	506	524	534
DPS (SGD)	0.15	0.15	0.16	0.16	0.17
DPS growth (%)	26.3	3.9	4.9	2.8	1.6
P/B (x)	1.15	1.16	1.18	1.18	1.17
Dividend Yield (%)	5.2	5.5	5.7	5.9	6.0
Return on average equity (%)	5.5	10.1	7.5	5.9	6.0
Return on average assets (%)	3.2	5.8	4.2	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 (35) of total portfolio (43), largest number of public EV charging points (76), and largest combined solar farm (>21,000 solar panels) in Singapore by SREIT.

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 and above in bizSAFE and zero cases of validated discrimination

G: EXCELLENT

High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

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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	5.9	6.0
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.28	4,204.07	4,210.25
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM	Recurring P/E (x)	19.93	12.11	15.74	20.25	19.85
	P/E (x)	21.12	11.40	15.59	20.02	19.63
Key drivers	P/B (x)	1.2	1.2	1.2	1.2	1.2
i. Diversified Industrial assets with high exposure to business parks and logistics sector,	FCF Yield (%)	5.8	5.2	9.3	9.5	9.3
ii. Largest and most liquid in S-REIT space, and	Dividend Yield (%)	5.2	5.5	5.7	5.9	6.0
iii. Strong and capable sponsor.	EV/EBITDA (x)	- 2.35	- 2.71	- 2.75	- 2.74	- 2.71
	EV/EBIT (x)	- 2.36	- 2.71	- 2.75	- 2.74	- 2.71
Key risks	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. High industrial supply and shorter land leases in Singapore,	Total turnover	1,049	1,227	1,294	1,327	1,377
ii. Tenant defaults and rental pressure, and	EBITDA	702	820	862	883	908
iii. Government policy measures impacting industrial space	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	862	883	908
	Net interest	(159)	(159)	(170)	(181)	(192)
	Pre-tax profit	494	1,044	783	624	637
	Taxation	(37)	(86)	(36)	(36)	(37)
	Recurring net profit	484	901	741	581	594
Company Profile	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Ascendas Real Estate Investment Trust (A-REIT) is a property trust constituted by a trust deed. A-REIT 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.	Change in working capital	20	(83)	153	164	137
	Cash flow from operations	729	727	1,116	1,149	1,148
	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(30)	(30)	(50)
	Dividends paid	(598)	(378)	(506)	(524)	(534)
	Cash flow from financing activities	479	1,277	(1,137)	(1,101)	(1,087)
	Cash at beginning of period	96	278	369	317	335
	Net change in cash	223	89	(51)	18	11
	Ending balance cash	278	369	317	335	346
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	278	369	317	335	346
	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	17,788	17,929	18,087
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	4,891	5,191	5,291
	Total liabilities	5,933	7,453	7,484	7,607	7,744
	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	5,548	5,630	5,719
	Total liabilities & equity	15,123	17,730	17,788	17,929	18,087
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	50.1	16.9	5.5	2.5	3.8
	Recurrent EPS growth (%)	12.3	64.5	(23.0)	(22.3)	2.0
	Operating EBITDA margin (%)	66.9	66.9	66.6	66.5	66.0
	Net profit margin (%)	43.6	78.0	57.8	44.3	43.6
	Dividend payout ratio (%)	117.8	65.8	90.0	117.8	117.3
	Capex/sales (%)	16.3	13.0	2.3	2.3	3.6
	Interest cover (x)	4.38	5.16	5.07	4.89	4.72

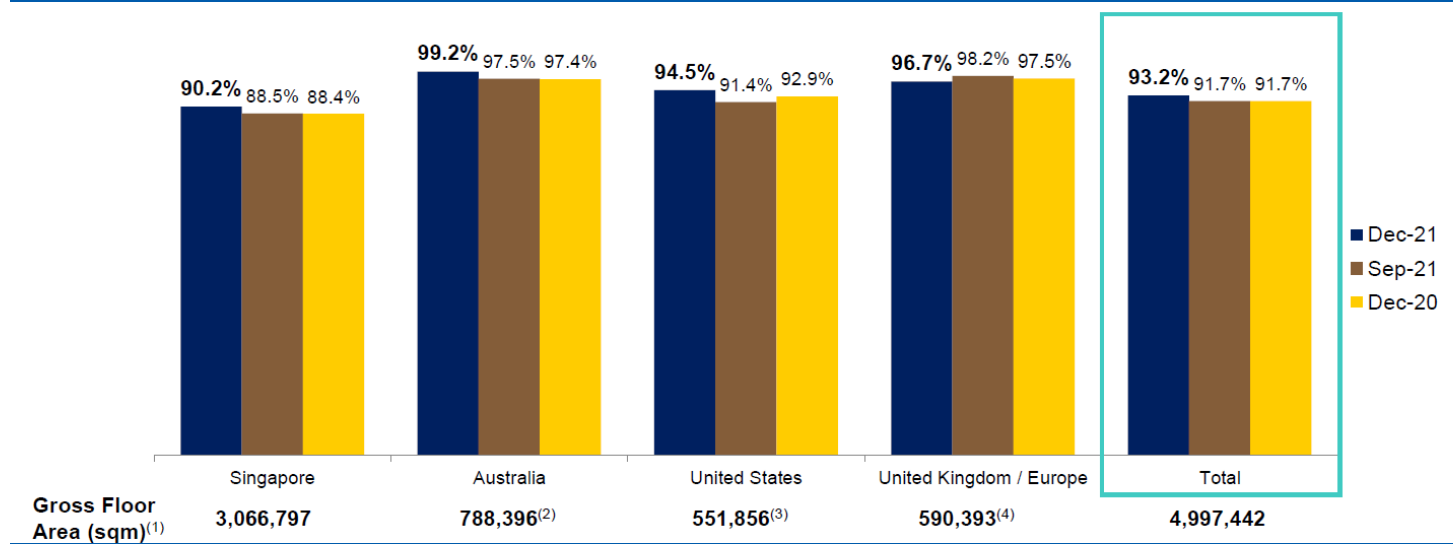
Source: Company data, RHB

Figure 1: AREIT's dividend discount model (DDM) valuation

DDM	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SGD cents)	16.0	16.5	17.0	17.5	362.3
Fair value (SGD)	3.40				
ESG Premium/(discount)	0.20				
Target Price (SGD)	3.60				
Current price (SGD)	2.80				
Price upside (%)	28.6				
Distribution yield (%)	5.9				
Total returns (%)	34.5				
Assumptions:					
Risk-free rate (%)	2.8				
Beta	0.7				
Cost of equity (%)	6.4				
Terminal growth (%)	1.5				

Source: RHB

Figure 2: Portfolio occupancy trend



Source: AREIT

Figure 3: Asset breakdown by geography

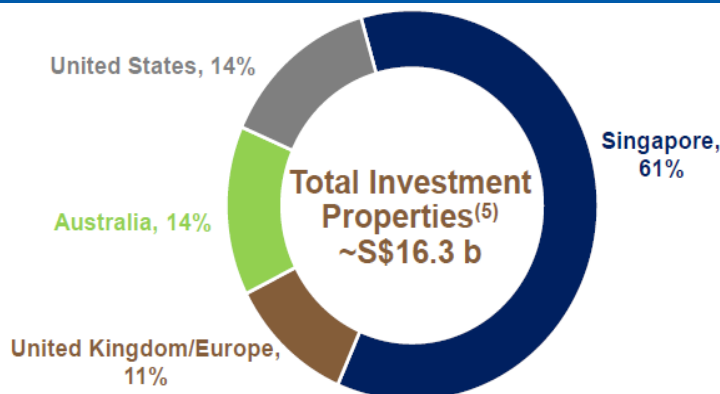
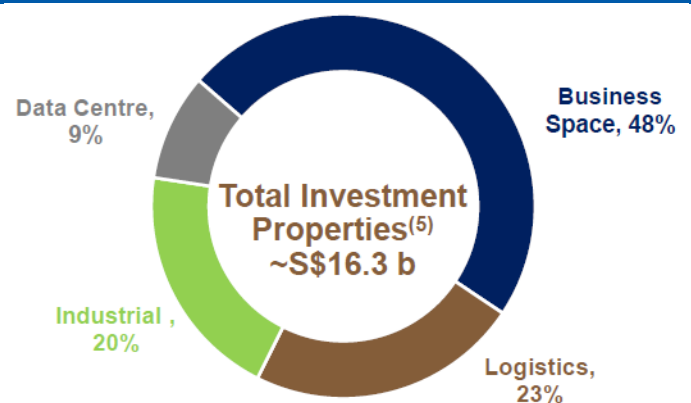


Figure 4: Asset breakdown by segment



Source: Company Data

Source: Company Data

Figure 5: Positive rental reversion across segments and markets

% Change in Renewal Rates for Multi-tenant Buildings ⁽¹⁾	FY2021	FY2020	4Q FY2021	3Q FY2021
Singapore	2.9%	3.1%	2.3%	3.6%
Business Spaces	2.9%	7.2%	2.2%	3.7%
High-Specifications Industrial and Data Centres	2.8%	-2.6%	0.3%	5.1%
Light Industrial and Flatted Factories	1.7%	1.3%	3.5%	1.1%
Logistics & Distribution Centres	4.4%	-7.9%	3.1%	4.6%
Integrated Development, Amenities & Retail	0.0%	13.5%	1.0%	1.4%
Australia	_(2)	14.0%	_(2)	_(2)
Business Spaces	_(2)	15.7%	_(2)	_(2)
Logistics & Distribution Centres	_(2)	13.6%	_(2)	_(2)
United States	22.6%	16.6%	0.9%	15.0%
Business Spaces	24.2%	16.6%	18.9%	15.0%
Logistics and Distribution Centres	0.0%	N.A.	0.0%	N.A.
United Kingdom/Europe	6.2%	_(2)	6.2%	_(2)
Data Centres	6.2%	_(2)	6.2%	_(2)
Logistics & Distribution Centres	_(2)	_(2)	_(2)	_(2)
Total Portfolio :	4.5%	3.8%	2.9%	3.7%

(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) There were no renewals signed in the period for the respective segments.

Source: AREIT

Recommendation Chart

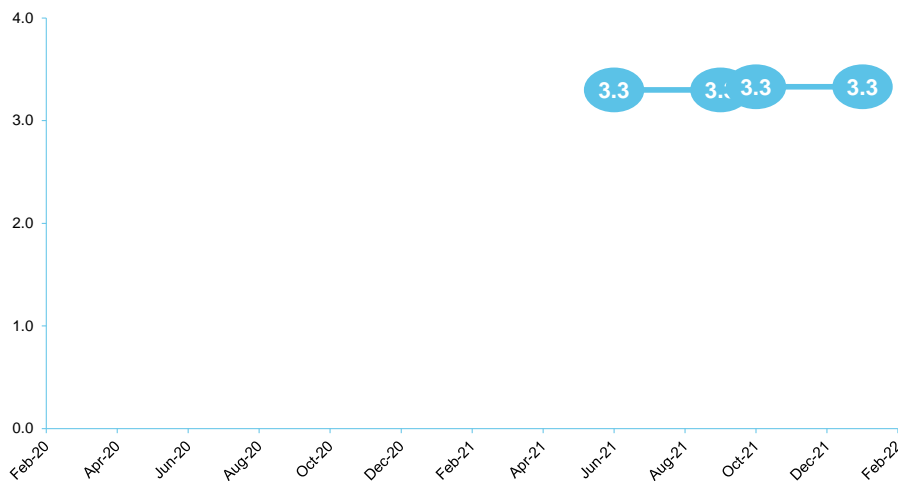


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-20	Buy	3.60	3.04
2021-08-02	Buy	3.50	3.12
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
2019-10-10	Neutral	3.00	3.09
2019-03-07	Neutral	2.90	2.78
2018-10-16	Buy	2.90	2.45
2018-04-24	Buy	2.95	2.68

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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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