

AIMS AMP (AAREIT SP)

Redevelopment Mode

3Q in line; adjust EPS for placement

3Q18 DPU of SGD2.62 was down 5.4% YoY but up 2.7% QoQ. Results are in line, with 9M DPU at 68% of our FY18E, 73% after adjusting for new shares. Near term, we expect weaker reversions due to industrial oversupply. The completion of its redevelopment project and first build-to-suit building should support FY18-20 DPUs. We lower DPU by 6-10% for 6.5% new units issued recently for a private placement. Our new DDM-based TP is SGD1.50 (WACC 8%, LTG 1.5%). Implied 7.4% dividend yields are compelling against 6.7% for industrial REIT peers, especially with upside potential from any further AEI or redevelopment. BUY maintained.

Results in line

Newly redeveloped 8 Tuas Ave 20 received its TOP on 29 Aug 2017. Its occupancy jumped QoQ, from 43.4% to 83.7%. Meanwhile, Beyonics International has pre-committed to a 10-year master lease at AAREIT's first build-to-suit development at 51 Marsiling Road, with minimum 2% pa rental escalations. Rental income is expected to commence in 1Q19. With development cost 11% lower than its budget, the project achieved a profit of SGD8.1m, 2.3x initial estimates, while its 10% NPI yield is also ahead of its 8.9% guidance. Additionally, AAREIT announced the divestment of its smallest asset, 10 Soon Lee Road, for SGD8.17m, at a 28% premium to its last valuation. Portfolio occupancy declined QoQ to 88.4%, with a -15.1% rental reversion.

Redevelopment prospects intact

Aggregate leverage fell from 37.3% to 33.8% as at end-Dec 2017, as SGD55m was raised from a private placement of 42.1m new units priced at SGD1.305 apiece. This was to reduce borrowings and lift debt headroom. We see further asset-rejuvenation opportunities. About 8% or 0.6m sf of its portfolio GFA is under-utilised. We estimate this could generate 5% DPU growth from additional AEI / redevelopment.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	124	120	123	130	131
Net property income	82	79	81	85	86
Core net profit	90	70	70	72	73
Core EPU (cts)	13.2	10.6	9.5	9.9	9.9
Core EPU growth (%)	18.6	(20.2)	(9.8)	4.0	0.1
DPU (cts)	11.4	11.1	10.2	10.6	10.6
DPU growth (%)	2.4	(2.7)	(8.2)	3.9	0.1
P/NTA (x)	0.9	1.0	0.9	0.9	0.9
DPU yield (%)	8.3	8.1	7.4	7.7	7.7
ROAE (%)	8.8	7.4	7.0	6.8	6.7
ROAA (%)	6.2	4.8	4.6	4.5	4.5
Debt/Assets (x)	0.32	0.36	0.34	0.34	0.34
Consensus DPU	-	-	11.0	11.0	11.3
MKE vs. Consensus (%)	-	-	(7.6)	(4.0)	(6.5)

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BUY

Share Price	SGD 1.37
12m Price Target	SGD 1.50 (+9%)
Previous Price Target	SGD 1.60

Company Description

AAREIT is sponsored by AMP Capital and AIMS Financial Group. It owns warehouses, factories and business parks in Singapore and Australia.

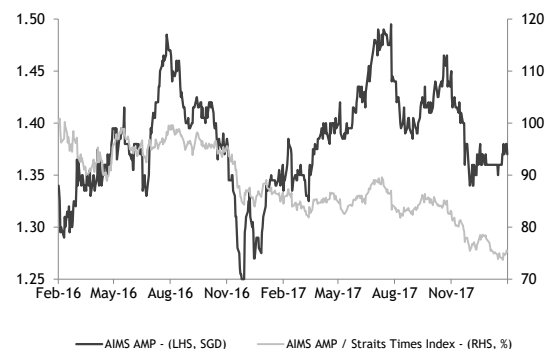
Statistics

52w high/low (SGD)	1.50/1.33
3m avg turnover (USDm)	0.7
Free float (%)	62.0
Issued shares (m)	639
Market capitalisation	SGD875.0M USD668M

Major shareholders:

Dragon Pacific Assets Ltd.	11.2%
AMP Ltd.	9.8%
APG Asset Management NV	8.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(5)	1
Relative to index (%)	(3)	(10)	(14)

Source: FactSet

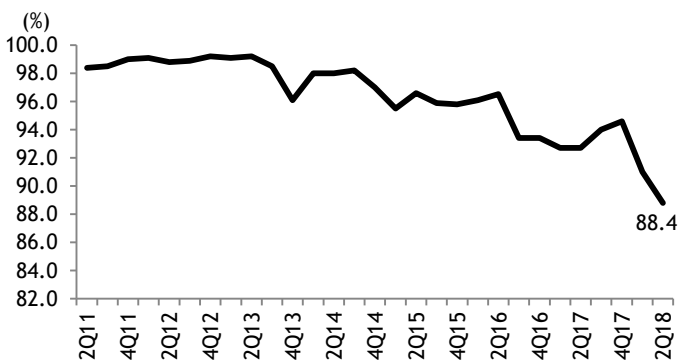
Fig 1: 3Q18 results

FYE 31 Mar	3Q17 (SGD m)	2Q18 (SGD m)	3Q18 (SGD m)	Change		YTD18 (SGD m)	% of FYE	FY18E (SGD m)
				(% YoY)	(% QoQ)			
Gross revenue	30.4	29.5	28.9	(4.9)	(2.2)	88.9	70.3	126.4
Property expenses	(10.6)	(10.1)	(9.6)	(8.9)	(4.8)	(30.1)	69.0	(43.7)
Net property income	19.8	19.4	19.2	(2.8)	(0.8)	58.7	71.0	82.7
Share of JV results	3.7	3.7	3.7	(1.6)	(2.3)	11.1	73.2	15.1
Borrowing costs	-4.4	(4.9)	(4.9)	11.2	0.8	(14.6)	72.6	(20.1)
Distributable income to unitholders	17.7	16.3	17.1	(3.5)	4.6	49.4	73.0	72.1
Distribution per unit (SGD cts)	2.8	2.6	2.6	(5.4)	2.7	7.7	68.2	11.3
NAV per unit (SGD)	1.48	1.36	1.35					
Aggregate leverage (%)^	34.6	37.3	33.8	(80)	(350)			
All-in financing cost (%)^	3.7	3.6	3.6	(10)	0			
Occupancy (%)^	94.0	88.8	88.4	(560)	(40)			
Rental reversion (%)^	(13.6)	(21.1)	(15.1)					
NPI margin (%)^	65.2	65.7	66.6	146	91			

^Change in basis points

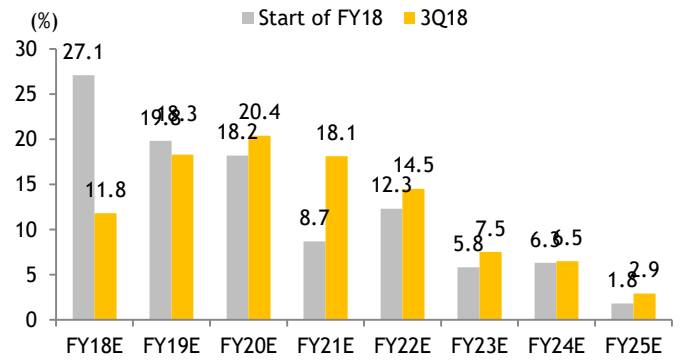
Source: Company data, Maybank Kim Eng

Fig 2: Occupancy at a historical low of 88.4%, on par with JTC's 88.9%



Source: Company data

Fig 3: Lease expiry profile



Source: Company data

Fig 4: Forecast changes

	FY18E (old)	FY19E (old)	FY18E	FY19E	FY18E (% change)	FY19E (% change)
Revenue (SGDm)	126.4	129.7	123.5	129.7	(2.3)	0.0
NPI (SGDm)	82.7	84.9	80.6	84.9	(2.5)	0.0
DPU (SGD)	11.3	11.3	10.2	10.6	(9.7)	(6.2)

Source: Maybank Kim Eng

Fig 5: S-REIT valuations

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												16	17E	18E	19E	
Retail							13.9	29.1			1.04	5.6	5.5	5.7	5.7	31
CapitaLand Mall (CMT)	Hold	2.10	2.20	4.8	5.5	10.2	7.4	22.8	63	1.95	1.07	5.3	5.3	5.5	5.4	35
Frasers Ctr Trust (FCT)	Buy	2.27	2.55	12.3	5.5	17.8	2.1	2.3	58	2.02	1.12	5.2	5.2	5.5	5.7	30
Starhill Global REIT	Sell	0.77	0.70	(9.1)	6.5	(2.6)	1.7	2.2	63	0.92	0.83	6.8	6.4	6.5	6.5	35
SPH REIT	Hold	1.05	1.00	(4.8)	5.3	0.6	2.7	1.7	25	0.94	1.11	5.2	5.2	5.3	5.3	26
Retail & Office							10.4	20.3			1.10	5.0	5.0	5.1	5.1	36
Suntec REIT	Hold	2.07	1.89	(8.7)	4.8	(3.9)	5.5	13.0	78	2.13	0.97	4.8	4.8	4.8	4.9	36
Mapletree Comm. (MCT)	Sell	1.69	1.45	(14.2)	5.3	(8.9)	4.9	7.3	66	1.37	1.23	5.1	5.3	5.3	5.3	36
Office							13.4	30.8			0.94	5.8	5.5	5.6	5.6	37
CapitaLand Comm. (CCT)	Buy	1.87	1.80	(3.7)	4.8	1.1	6.7	22.2	73	1.78	1.05	4.7	4.6	4.8	4.9	37
Keppel REIT	Hold	1.29	1.19	(7.8)	4.8	(2.9)	4.3	6.1	56	1.41	0.91	4.9	4.4	4.8	5.0	39
Frasers Comm. (FCOT)	NR	1.46					1.2	2.3	73	1.58	0.93	6.7	6.7	6.6	6.6	35
OUE Comm. (OUECT)	NR	0.75					1.2	0.2	17	0.85	0.88	6.9	6.3	6.2	6.1	37
Industrial							22.5	46.4			1.19	7.1	6.7	6.7	6.8	36
Ascendas REIT	Buy	2.76	3.05	10.5	6.3	16.8	8.0	21.9	80	2.07	1.33	5.7	6.0	6.3	6.5	34
Mapletree Ind. (MIT)	Buy	2.12	2.20	3.8	6.2	10.0	4.0	7.1	68	1.42	1.50	5.4	5.6	6.2	6.4	30
Mapletree Log. (MLT)	Hold	1.37	1.25	(8.8)	5.8	(2.9)	4.2	8.4	64	1.05	1.31	5.4	5.6	5.8	6.0	39
Cache Logistics Trust	Hold	0.87	0.90	4.0	7.1	11.1	0.9	1.5	100	0.72	1.21	8.6	7.6	7.1	7.3	36
Viva Industrial Trust	Buy	0.97	1.05	8.8	7.2	16.0	0.9	1.2	43	0.77	1.26	7.3	7.7	7.2	7.4	39
AIMS AMP	Buy	1.37	1.50	9.5	7.7	17.2	0.9	0.9	62	1.37	1.00	8.1	7.4	7.7	7.7	34
Keppel DC REIT	NR	1.43					1.6	2.7	65	0.97	1.48	4.3	5.0	5.4	5.6	28
Cambridge Ind. (CIT)	NR	0.59					0.8	0.8	69	0.59	1.00	7.1	6.6	7.2	7.3	38
Soilbuild BS REIT	NR	0.68					0.7	1.4	65	0.64	1.06	9.0	8.5	7.4	7.3	38
Sabana SC Ind. REIT	NR	0.41					0.4	0.5	78	0.54	0.75	10.3	n.a.	n.a.	n.a.	37
Hospitality & Residential							10.5	10.0			1.05	5.9	5.7	5.9	5.9	35
Ascott Residence Trust	NR	1.26					2.7	2.6	59	1.25	1.01	6.3	5.5	5.7	5.8	32
CDL HT (CDLHT)	NR	1.82					2.2	3.1	63	1.53	1.19	5.3	5.0	5.4	5.7	39
OUE HT (OUEHT)	NR	0.90					1.6	1.6	52	0.76	1.18	5.2	5.7	5.7	6.1	38
Far East HT (FEHT)	NR	0.77					1.4	1.1	41	0.89	0.86	5.7	5.2	5.6	5.7	33
Frasers HT	NR	0.81					1.5	0.9	39	0.79	1.03	6.9	6.2	6.4	6.4	34
Ascendas HT	NR	0.90					1.0	0.7	65	0.89	1.01	6.1	6.4	6.7	n.a.	33
Saizen REIT	NR						14.9	17.7			1.04	6.9	6.4	6.4	6.3	33
Offshore REITs		1.26					3.6	4.3	66	1.25	1.01	5.8	5.8	6.0	6.1	39
Mapletree Greater China	NR	1.69					1.6	2.0	63	1.60	1.05	6.0	6.0	6.4	6.8	35
CapitaLand Retail China	NR	9.90					3.2	0.6	72	14.05	0.70	5.0	5.1	5.3	5.4	28
Fortune REIT (HKD)	NR	0.42					1.2	2.0	64	0.35	1.19	8.1	8.3	8.1	n.a.	31
Lippo Malls Ind. RT	NR	0.98					1.3	2.9	95	0.84	1.17	5.9	5.4	6.1	6.1	30
Manulife REIT (USD)	NR	0.92					0.8	n.a.	47	0.84	1.09	n.a.	n.a.	6.5	6.9	36
IREIT Global	NR	0.81					0.5	0.4	33	0.67	1.21	11.8	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.77					0.4	0.0	34	0.83	0.93	7.1	n.a.	n.a.	n.a.	32
Frasers Log. & Ind. (FLT)	NR	1.14					1.7	5.3	74	0.92	1.24	5.3	6.8	6.5	6.6	29
EC World REIT	NR	0.79					0.6	0.3	51	0.93	0.84	n.a.	7.6	n.a.	n.a.	29
Healthcare							2.9	2.8			1.55	5.0	5.3	5.2	5.3	34
Parkway Life REIT	NR	3.02					1.8	1.7	54	1.76	1.72	4.0	4.5	4.1	4.3	37
First REIT	NR	1.41					1.1	1.1	67	1.01	1.39	6.0	6.1	6.2	6.3	31
Total REITs							88	157			1.10	6.3	6.0	6.1	6.1	34
S-REIT yield spread																
FSTREI Index																2.9
SGS 10Y bond yield																5.2
																2.3

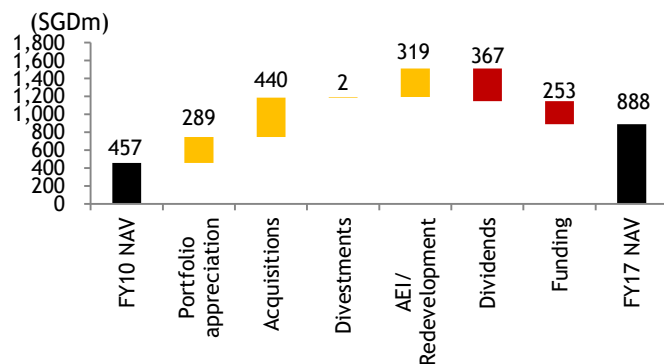
Prices as of 31 Jan 2018. NR = Not Rated.

Source: Bloomberg, Factset, Companies, Maybank Kim Eng

Value Proposition

- Diversified industrial property portfolio offers exposure to warehouses (71% of NLA, 63% of FY17 rental income), light industrial buildings (26%, 30%) and a business park (3%, 8%).
- Sponsors AIMS Financial Group (Australian financial services/investment group founded and controlled by George Wang) and AMP Capital boast real estate fund and asset management expertise.
- Acquisitions and proactive redevelopment initiatives have led NAV growth at 10% 7-year CAGR to FY17, and should remain a key driver of portfolio value accretion.
- Growth optionality well-supported by redevelopment potential from under-utilised portfolio GFA at about 10% of existing NLA.

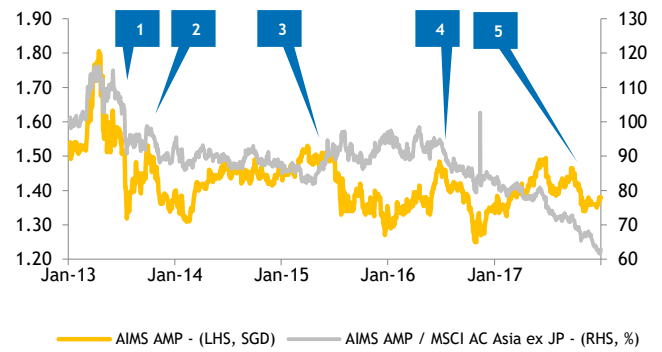
NAV growth (FY10-17)



Source: Company

Price Drivers

Historical share price trend



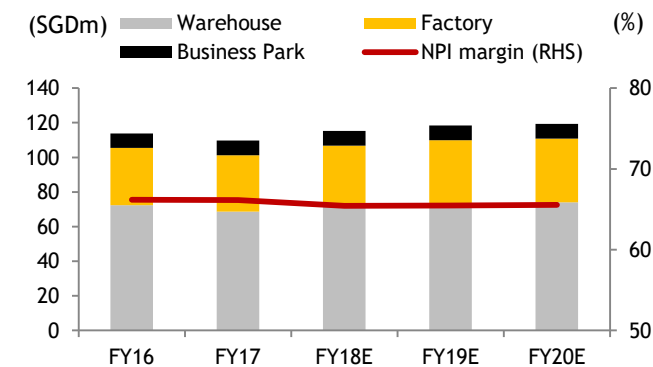
Source: Company, Maybank Kim Eng, Factset

1. May-13: Market anticipates occupancy declines due to single-to-multi tenant conversions. 2Q13 also sees the start of a strong supply cycle that is set to end in 2017.
2. Nov 2013: Announced first overseas expansion, an acquisition of 49% stake in Optus Centre, a business park property in Sydney for AUD184.4m.
3. May 2015: Announced SGD41.7m redevelopment of 30 Tuas West Road into five-storey ramp-up warehouse, with plot ratio optimised from 1.15 to 2.07.
4. Aug 2016: Announced first third-party green-field development project, a SGD39.4m build-to-suit (BTS) at Marsiling for Beyonics on a 10-year master lease term.
5. Dec 2017: Raised SGD55.0m from private placement of 42.1m new units at SGD1.305/unit, at 6.9% discount to closing price.

Financial Metrics

- Rental reversions could be negative near term, though DPUs should be supported by master lease rental step-ups, and first BTS facility for Beyonics at Marsiling Lane.
- Expect stable NPI margins stable given comparable growth profiles for both master lease and multi-tenanted properties.

Revenue and NPI growth



Source: Company, MKE

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for light industrial and logistics space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for light industrial and logistics space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- AUD/SGD volatility which could impede hedging efforts and affect DPU.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	12.0	12.4	13.5	13.0	13.0
P/BV (x)	0.9	1.0	0.9	0.9	0.9
P/NTA (x)	0.9	1.0	0.9	0.9	0.9
DPU yield (%)	8.3	8.1	7.4	7.7	7.7
FCF yield (%)	8.6	9.9	9.3	9.8	9.9
INCOME STATEMENT (SGD m)					
Revenue	124.4	120.1	123.5	129.7	130.8
Net property income	82.3	79.4	80.6	84.9	85.7
Management and trustee fees	(10.7)	(9.2)	(9.2)	(9.4)	(9.5)
Net financing costs	(20.2)	(18.6)	(20.1)	(22.3)	(23.1)
Associates & JV	36.8	14.8	15.1	15.6	16.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.5	2.4	2.4	2.4	2.4
Pretax profit	88.8	68.9	68.8	71.2	71.6
Income tax	(4.8)	(1.5)	(3.1)	(3.2)	(3.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	83.9	67.3	65.7	68.0	68.4
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	72.1	70.5	70.1	72.4	72.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	7.5	11.7	64.7	64.7	64.7
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	1,172.4	1,175.1	1,256.4	1,262.7	1,271.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	225.2	232.1	224.6	231.3	238.3
Other assets	54.4	46.5	46.5	46.5	46.5
Total assets	1,459.5	1,465.5	1,592.2	1,605.3	1,620.6
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	28.4	33.3	33.3	33.3	33.3
LT interest bearing debt	471.5	527.5	547.5	547.5	547.5
Other liabilities	18.8	16.3	16.3	16.3	16.3
Total Liabilities	518.7	577.0	597.0	597.0	597.0
Shareholders Equity	940.7	888.4	995.2	1,008.3	1,023.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	940.7	888.4	995.2	1,008.3	1,023.6
Total liabilities and equity	1,459.5	1,465.5	1,592.2	1,605.3	1,620.6
CASH FLOW (SGD m)					
Cash flow from operations	74.6	86.7	87.7	92.3	93.5
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(22.7)	(48.0)	(22.0)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	13.9	15.0	2.4	2.4	2.4
CF from investing activities	(8.8)	(33.0)	(19.6)	2.4	2.4
Dividends paid	(68.0)	(71.5)	(70.1)	(72.4)	(72.8)
Interest expense	(19.3)	(19.3)	(20.1)	(22.3)	(23.1)
Change in debt	19.0	56.0	20.0	0.0	0.0
Equity raised / (purchased)	(0.1)	(6.0)	55.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(68.4)	(40.8)	(15.1)	(94.7)	(95.9)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(2.6)	12.9	53.0	0.0	0.0

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.8	(3.4)	2.8	5.0	0.9
Net property income growth	2.9	(3.5)	1.5	5.4	1.0
Core net profit growth	6.6	(22.0)	(0.6)	3.3	0.6
Distributable income growth	4.1	(2.2)	(0.6)	3.3	0.6
Profitability ratios (%)					
Net property income margin	66.2	66.1	65.3	65.5	65.5
Core net profit margin	72.7	58.7	56.7	55.8	55.7
Payout ratio	85.9	104.7	106.6	106.5	106.5
DuPont analysis					
Total return margin (%)	67.5	56.0	53.2	52.4	52.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	8.8	7.4	7.0	6.8	6.7
ROAA (%)	6.2	4.8	4.6	4.5	4.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	2.5	2.7	2.7	2.7
Net gearing (%) (excl. perps)	49.3	58.1	48.5	47.9	47.2
Net interest cover (x)	3.6	3.8	3.6	3.4	3.3
Debt/EBITDA (x)	6.6	7.5	7.7	7.2	7.2
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	464.0	515.8	482.8	482.8	482.8
Debt/Assets (x)	0.32	0.36	0.34	0.34	0.34

Source: Company; Maybank

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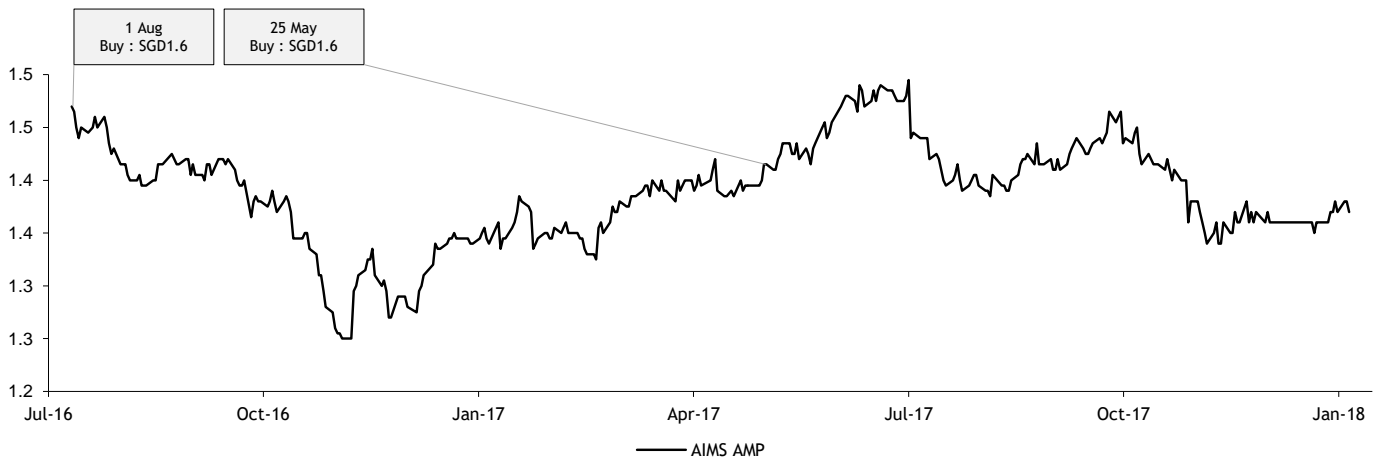
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