

Ascendas REIT (AREIT SP)

A Slower Quarter...

TP cut 3%; Reiterate BUY on overseas diversification

2Q19 DPU was below our forecast due to weaker Singapore occupancies. We cut DPU by 4-5% to reflect this, as well as the recently completed second UK deal and new units issued. Lower Singapore contributions were offset by its rising overseas growth engines. We continue to like AREIT for its scale and see it as the best proxy to recovering sector fundamentals given its concentrated business parks and high-specs portfolio. Following its UK entry, we see further momentum in its diversification initiatives to drive upside to our FY19-21E 2.8% DPU CAGR. Our DDM-based TP is revised down slightly to SGD2.95 (COE: 7.4%, LTG: 2.0%). Supported by 20% total return upside, maintain BUY.

Slight drag from weaker Singapore occupancies

2Q19 revenue rose 1.1% YoY with contributions from acquisitions in Australia (100, 108 Wickham Street), the UK (first 12 logistics property logistics portfolio) and redevelopment in Singapore (20 Tuas Ave 1). NPI dipped 1.0% YoY with the reversal of accrued property expenses in 2Q18. DPU fell 4.2% YoY on higher interest costs and the 6% in new units. Portfolio occupancy was stable from its overseas assets, while Singapore occupancies fell QoQ from 88.1% to 87.1%. This was largely due to non-renewals at logistics properties 40 Penjuru Lane and 9 Changi South 3. AREIT achieved +2.3% rental reversion versus a stronger +10.5% in 1Q19 and +3.1% a year ago, and expects this to improve from +0.7% in FY18.

DPU levers from overseas growth, SG redevelopment

Management sounded a more sombre tone on its Singapore operations as tenants are still rationalising against a tail-end of high supply. However, AREIT sees opportunities to scale up its UK AUM with more accretive single-asset deals. Its Singapore properties meanwhile could support stronger redevelopment potential over the medium term.

Adjusting estimates, including 2nd UK deal

We factor in recently completed deals, including the second UK portfolio acquisition at GBP257.5m (SGD459.2m) partially funded by the 7 Sep SGD452.1m equity fund raising (178.0m new units at SGD2.54/unit). Meanwhile an announcement of its proposed build-to-suit facility development in Singapore at SGD109.0m is likely forthcoming.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	831	862	917	975	1,001
Net property income	611	629	671	729	755
Core net profit	420	438	489	523	541
Core EPU (cts)	15.3	16.9	16.2	16.8	17.3
Core EPU growth (%)	9.5	10.1	(4.1)	3.6	3.3
DPU (cts)	15.7	16.0	16.2	16.8	17.3
DPU growth (%)	2.2	1.6	1.2	3.7	3.4
P/NTA (x)	1.2	1.2	1.2	1.1	1.0
DPU yield (%)	6.2	6.1	6.3	6.5	6.7
ROAE (%)	7.0	7.7	7.3	7.3	7.1
ROAA (%)	4.2	4.3	4.5	4.5	4.5
Debt/Assets (x)	0.33	0.34	0.35	0.34	0.33
Consensus DPU	-	-	16.3	16.8	17.0
MKE vs. Consensus (%)	-	-	(0.5)	(0.1)	2.1

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BUY

Share Price	SGD 2.58
12m Price Target	SGD 2.95 (+14%)
Previous Price Target	SGD 3.05

Company Description

Ascendas Real Estate Investment Trust engages in the investment in a portfolio of properties and property related assets.

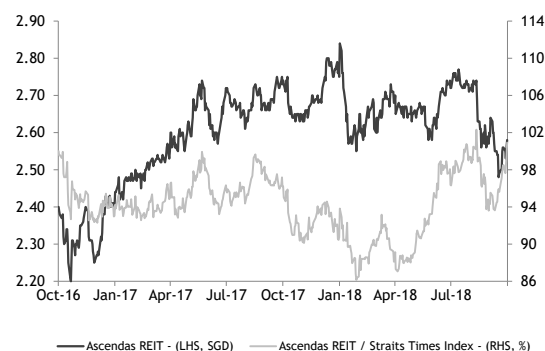
Statistics

52w high/low (SGD)	2.84/2.48
3m avg turnover (USDm)	20.1
Free float (%)	79.7
Issued shares (m)	2,925
Market capitalisation	SGD7.5B
	USD5.5B

Major shareholders:

Temasek	17.7%
Mondrian Investment	7.8%
BlackRock	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(5)	(5)
Relative to index (%)	7	4	4

Source: FactSet

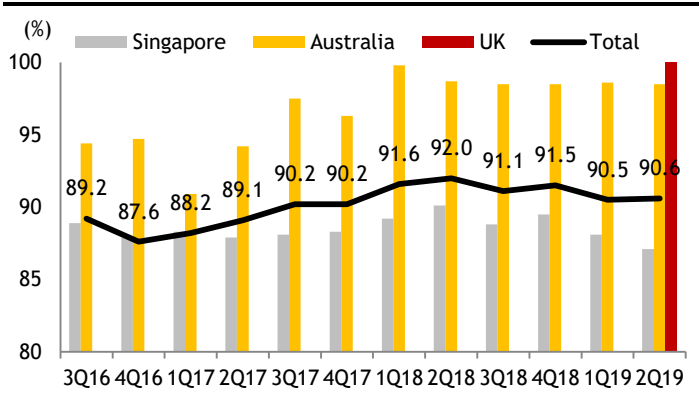
Fig 1: Summary financials 2Q19A comparison

FYE 31 Mar	2Q18 (SGD m)	1Q19 (SGD m)	2Q19 (SGD m)	Change		YTD19 (SGD m)	% of FYE	FY19E (SGD m)
				(% YoY)	(% QoQ)			
Gross revenue	215.8	216.6	218.1	1.1	0.7	434.7	47.2	920.5
Property expenses	(55.3)	(57.4)	(59.2)	7.1	3.3	(116.6)	52.4	(222.3)
Net property income	160.5	159.2	158.9	(1.0)	(0.2)	318.1	45.6	698.2
Borrowing costs	(27.2)	(29.2)	(31.6)	16.2	8.5	(60.8)	51.7	(117.6)
Distributable income to unitholders	118.8	117.3	115.0	(3.1)	(1.9)	232.3	46.2	503.1
Distribution per unit (SGD cts)	4.1	4.0	3.9	(4.2)	(2.9)	7.9	46.0	17.2
NAV per unit (SGD)	2.13	2.07	2.13					
Aggregate leverage (%)^	33.1	35.7	33.2	10	(250)			
All-in financing cost (%)^	2.9	2.9	3.0	10	10			
Occupancy (%)^	92.0	90.5	90.6	(140)	10			
Rental reversion (%)^	3.1	10.5	2.3					
NPI margin (%)^	74.4	73.5	68.2	(615)	(528)			

^Change in basis points

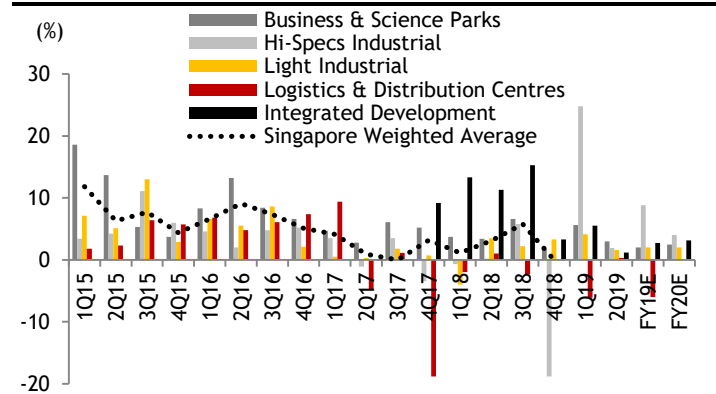
Source: Company data, Maybank Kim Eng

Fig 2: Portfolio occupancy was stable at 90.6% while in Singapore it fell from 88.1% to 87.1%



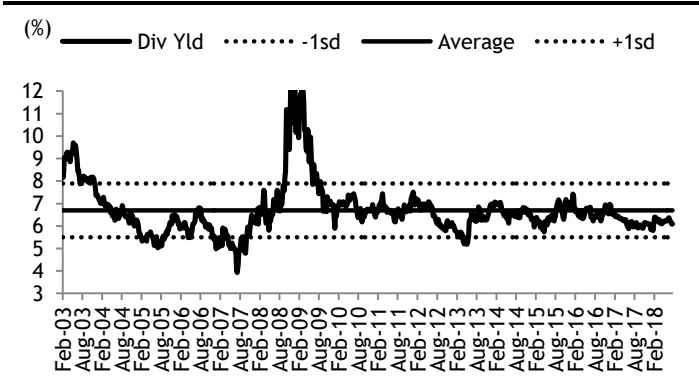
Source: Company data

Fig 3: Rental reversion was +2.3% in 2Q19 and positive across all segments at between +0.3% to +3.0%



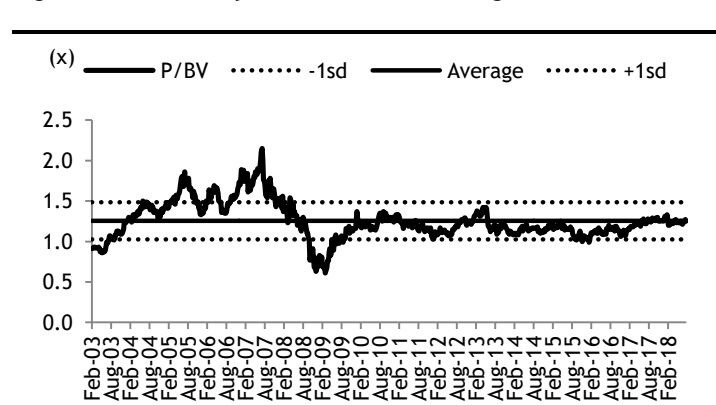
Source: Company data, Maybank Kim Eng estimates

Fig 4: Yield-spread to Singapore 10-year government bond expected to tighten as rental recovery picks up pace



Source: Bloomberg

Fig 5: P/BV currently at its historical average of 1.2x



Source: Bloomberg

Fig 6: Slight revisions to estimates (down by 4-5%)

	FY19E (old)	FY20E (old)	FY19E (new)	FY20E (new)	FY19E (% change)	FY20E (% change)
Revenue (SGDm)	920.5	957.4	917.1	975.1	-0.4	1.8
NPI (SGDm)	698.2	736.4	671.4	728.9	-3.8	-1.0
DPU (SGD)	17.2	17.6	16.2	16.8	-5.4	-4.5

Source: Maybank Kim Eng

Fig 7: S-REITs' valuation comparison

Company	Rating	Price	TP	Upside	Yield	Total	MC	ADTV	Free	BVPS	P/BV	Dividend yield (%)				Gearing
		(SGD)	(SGD)	(%)	(%)	return	(SGD b)	(SGD m)	Float	(SGD)	(x)	17	18E	19E	20E	(D/A)
Retail							13.8	25.4			0.98	5.9	5.8	5.9	6.1	31
Capita Mall Trust (CMT)	Hold	2.17	2.15	(0.9)	5.3	4.4	7.7	21.3	66	2.03	1.07	5.2	5.3	5.3	5.5	34
Frasers Ctr Trust (FCT)	Buy	2.22	2.55	14.9	5.5	20.4	2.1	2.1	58	2.08	1.06	5.3	5.5	5.7	5.8	29
Starhill Global (SGREIT)	Hold	0.67	0.65	(3.0)	6.8	3.8	1.5	1.3	65	0.91	0.73	7.3	6.8	7.1	7.1	35
SPH REIT	Hold	0.99	1.00	1.5	5.6	7.1	2.5	0.7	25	0.94	1.04	5.6	5.6	5.7	5.9	25
Retail & Office							9.5	20.5			0.98	5.6	5.6	5.7	5.8	36
Suntec REIT (SUN)	Hold	1.80	1.94	7.8	5.6	13.4	4.8	11.6	72	2.08	0.86	5.6	5.6	5.7	5.9	38
Mapletree Comm. (MCT)	Hold	1.63	1.60	(1.8)	5.6	3.7	4.7	8.9	66	1.49	1.10	5.6	5.6	5.7	5.8	35
Office							12.3	24.5			0.81	6.7	6.7	6.6	6.6	38
CapitaLand Comm. (CCT)	Hold	1.73	1.80	4.0	5.2	9.2	6.5	16.6	70	1.84	0.94	5.0	5.2	5.2	5.2	38
Keppel REIT (KREIT)	Hold	1.13	1.19	5.3	5.5	10.8	3.8	5.7	54	1.40	0.81	5.0	5.5	5.7	5.8	39
Frasers Comm. (FCOT)	NR	1.43					1.3	1.7	74	1.60	0.89	6.9	6.8	6.7	6.7	35
OUE Comm. (OUECT)	NR	0.47					0.7	0.6	17	0.81	0.58	10.0	9.2	9.0	8.4	40
Industrial							23.1	54.0			1.06	7.4	7.3	7.5	7.7	36
Ascendas REIT (AREIT)	Buy	2.58	2.95	14.3	6.3	20.6	8.0	27.9	81	2.13	1.21	6.2	6.3	6.5	6.7	36
Mapletree Ind. (MINT)	Buy	1.96	2.20	12.2	6.5	18.7	3.7	5.7	68	1.46	1.34	6.0	6.5	6.8	7.1	36
Mapletree Log. (MLT)	Hold	1.23	1.30	5.7	6.4	12.1	4.4	9.1	69	1.13	1.09	6.2	6.4	6.6	6.6	38
Cache Logistics Trust	Buy	0.71	0.95	33.8	8.9	42.7	0.8	1.8	90	0.70	1.01	9.3	8.9	9.1	9.5	36
AIMS AMP (AAREIT)	Buy	1.35	1.50	11.1	7.8	18.9	0.9	1.5	87	1.37	0.99	7.2	7.8	7.8	7.8	34
Keppel DC REIT (KDCREIT)	NR	1.36					1.8	5.4	75	1.01	1.35	5.2	5.6	5.9	6.2	32
ESR REIT	NR	0.48					1.5	0.9	58	0.68	0.71	8.0	8.3	8.5	9.0	30
Soilbuild BS REIT	NR	0.58					0.6	0.7	64	0.64	0.91	9.8	8.7	8.7	n.a.	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.3	72	0.54	0.77	n.a.	n.a.	n.a.	n.a.	38
Hospitality & Residential							8.6	7.9			0.85	6.9	7.0	7.3	7.5	34
Ascott Res. Trust (ART)	Hold	1.05	1.15	9.5	6.8	16.3	2.3	1.9	55	1.23	0.85	7.1	6.8	6.9	7.0	36
CDL HT (CDLHT)	Buy	1.49	1.80	20.8	6.5	27.3	1.8	2.9	63	1.52	0.98	6.2	6.5	6.7	6.9	33
OUE HT (OUEHT)	NR	0.66					1.2	1.1	52	0.76	0.87	7.7	7.7	8.2	8.8	39
Far East HT (FEHT)	Buy	0.61	0.75	23.0	7.0	29.9	1.1	1.1	41	0.87	0.70	6.5	7.0	7.3	7.7	40
Frasers HT (FHT)	Buy	0.71	0.80	13.5	7.0	20.4	1.3	0.6	39	0.78	0.91	6.9	7.0	7.2	7.2	34
Ascendas HT (AHT)	NR	0.80					0.9	0.5	64	1.01	0.79	n.a.	n.a.	n.a.	n.a.	24
Offshore REITs							15.3	15.7			0.86	8.2	7.7	8.0	8.2	34
Sasseur REIT	Buy	0.69	0.90	30.4	8.7	39.1	0.8	0.2	22	0.91	0.76	n.a.	8.7	9.0	9.3	33
Mapletree Greater China	NR	1.13					3.6	7.2	69	1.32	0.86	6.6	6.8	6.8	6.9	39
CapitaLand Retail China	NR	1.36					1.3	1.6	62	1.71	0.80	7.4	7.7	7.9	8.2	32
Fortune REIT (HKD)	NR	8.69					2.9	0.4	72	16.09	0.54	5.9	6.0	6.1	6.5	27
Lippo Malls Ind. RT	NR	0.25					0.7	1.2	63	0.30	0.82	13.9	10.6	10.6	11.0	35
Manulife REIT (USD)	NR	0.77					1.3	1.2	93	0.83	0.92	7.7	7.5	8.0	8.2	34
Keppel_KBS US REIT	NR	0.66					0.6	0.3	86	0.89	0.74	n.a.	9.1	9.5	9.6	34
IREIT Global	NR	0.73					0.5	0.1	31	0.69	1.05	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.67					0.3	0.0	37	0.83	0.80	n.a.	n.a.	n.a.	n.a.	34
Frasers Log. & Ind. (FLT)	NR	1.05					2.1	3.3	79	0.92	1.14	7.3	6.5	6.6	6.7	31
EC World REIT	NR	0.69					0.5	0.2	42	0.91	0.75	8.6	n.a.	n.a.	n.a.	29
Cromwell REIT (EUR)	NR	0.55					1.4	0.2	28	0.53	1.04	n.a.	7.6	8.4	8.2	35
Healthcare							2.5	2.5			1.35	6.1	6.0	6.2	6.2	36
Parkway Life REIT	NR	2.63					1.6	1.5	54	1.76	1.50	5.1	4.7	4.9	5.0	38
First REIT	NR	1.21					1.0	1.1	67	1.01	1.20	7.1	7.3	7.4	7.5	34
Total REITs							85	150			0.95	7.0	6.9	7.1	7.2	35
S-REIT yield spread																
FSTREI Index																2.9
SGS 10Y bond yield																5.4
																2.5

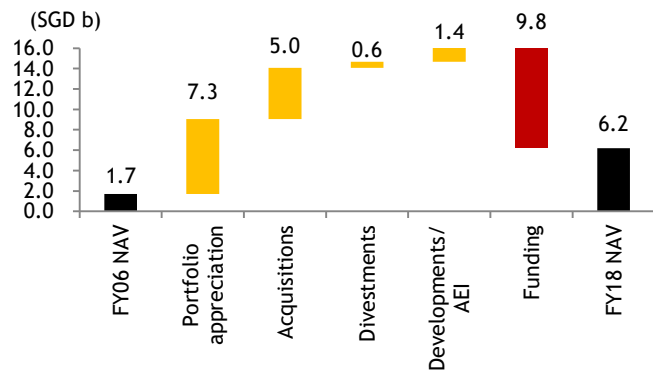
Prices as of 25 Oct 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- Largest listed S-REIT, and first and largest listed within the industrial sub-sector. AREIT is backed by sponsors Ascendas-Singbridge and JTC, Singapore’s principal developer and manager of industrial estates.
- Offers prominent exposure to Singapore business parks and hi-spec buildings (58% of portfolio), which are geared towards the gov.’t push for higher value-add businesses.
- Greater clarity on acquisitive growth trajectory, with Australian assets driving earnings visibility and Science Park Drive properties entrenching business park footprint.
- Proactive portfolio reconstitution has strengthened balance sheet. We expect management will endeavour to recycle capital into higher-yielding and newer assets.

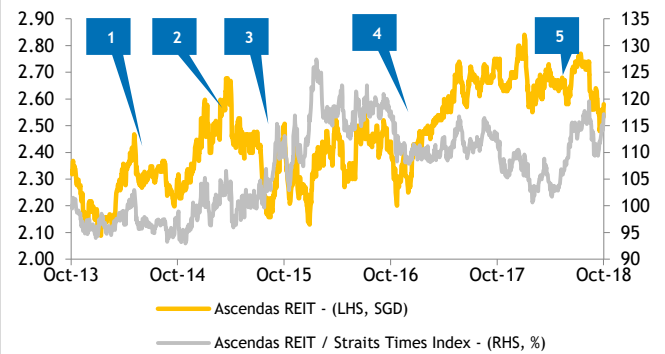
NAV growth (FY06-18)



Source: Company

Price Drivers

Historical share price trend



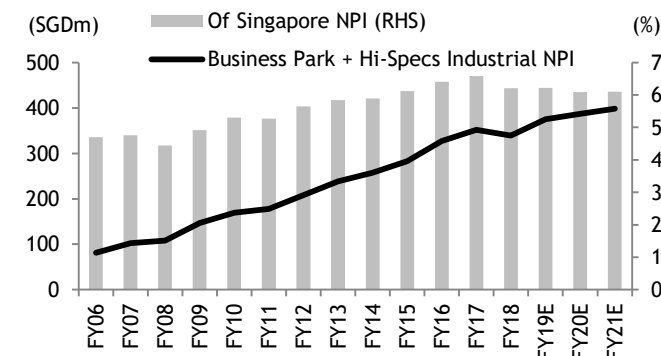
Source: Company, FactSet, Maybank Kim Eng

1. Aug-14: Acquired Aperia (centrally-located integrated industrial site with retail space) for SGD458m (8.3% of market cap).
2. Feb-15: Temasek and JTC jointly announce the merger of their four subsidiaries, including Ascendas and Singbridge to create a 51:49 JV valued at SGD5b.
3. Sep-15: Acquired a portfolio of 26 freehold Australian logistics properties for AUD1.0b (SGD1.0b) at 6.4% NPI yield, WALE of 6.1 years, 3.3% per annum rent escalation.
4. Dec-16: Acquired 12, 14 and 16 Science Park Drive for SGD420m at 6.0% NPI yield and WALE of 16.5 years, with 2.2-2.5% per annum rent escalation.
5. Jul-18: Announced acquisition of UK logistics portfolio for SGD373.2m at 5.3% NPI yield and plans to scale further into new developed markets.

Financial Metrics

- DPUs for FY19-21E to be resilient given favourable business parks and hi-specs industrial exposure, and rising contribution from recently completed overseas acquisitions.
- NPI contribution from AREIT’s business parks and hi-specs properties has outpaced growth in its broader asset portfolio; overseas acquisitions to diversify growth drivers from FY18-21E.

NPI growth profile



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions.

Downside

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

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	16.0	16.4	15.9	15.4	14.9
P/BV (x)	1.2	1.2	1.2	1.1	1.0
P/NTA (x)	1.2	1.2	1.2	1.1	1.0
DPU yield (%)	6.2	6.1	6.3	6.5	6.7
FCF yield (%)	7.5	7.0	7.8	8.3	8.5

INCOME STATEMENT (SGD m)

Revenue	830.6	862.1	917.1	975.1	1,001.5
Net property income	610.9	629.4	671.4	728.9	755.4
Management and trustee fees	(60.7)	(58.4)	(63.8)	(66.8)	(69.1)
Net financing costs	(117.7)	(109.8)	(115.7)	(135.9)	(141.5)
Associates & JV	0.5	0.5	0.5	0.5	0.5
Exceptionals	(31.4)	26.2	0.0	0.0	0.0
Other pretax income/expenses	6.8	9.1	9.1	9.1	9.1
Pretax profit	408.5	496.9	501.6	535.8	554.4
Income tax	19.0	(2.8)	(12.5)	(13.4)	(13.9)
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	427.5	494.1	489.0	522.4	540.5
Distributable inc to unitholders	446.3	468.0	488.8	522.8	541.4

BALANCE SHEET (SGD m)

Cash & Short Term Investments	22.0	25.0	21.6	21.6	21.6
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	9,874.2	10,214.4	11,118.5	11,615.8	12,025.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.1	0.1	0.0	0.0	0.0
Other assets	274.5	114.2	114.2	114.2	114.2
Total assets	10,170.8	10,353.8	11,254.3	11,751.6	12,160.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	192.7	143.8	143.8	143.8	143.8
LT interest bearing debt	3,400.1	3,519.2	3,979.2	3,979.2	3,979.2
Other liabilities	242.9	192.0	192.0	192.0	192.0
Total Liabilities	3,835.7	3,855.1	4,315.1	4,315.1	4,315.1
Shareholders Equity	6,335.1	6,498.7	6,939.2	7,436.5	7,845.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,335.1	6,498.7	6,939.2	7,436.5	7,845.8
Total liabilities and equity	10,170.8	10,353.8	11,254.3	11,751.6	12,160.9

CASH FLOW (SGD m)

Cash flow from operations	529.3	538.9	609.1	663.4	687.6
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(157.8)	(298.6)	(915.5)	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	20.1	23.5	9.6	9.6	9.6
CF from investing activities	(137.6)	(275.1)	(906.0)	9.6	9.6
Dividends paid	(500.9)	(294.6)	(488.8)	(522.8)	(541.4)
Interest expense	(111.5)	(118.4)	(115.7)	(135.9)	(141.5)
Change in debt	48.6	167.1	460.0	0.0	0.0
Equity raised / (purchased)	137.7	(14.3)	437.9	(14.3)	(14.3)
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(426.1)	(260.1)	293.4	(673.0)	(697.2)
Effect of exchange rate changes	0.3	(0.7)	0.0	0.0	0.0
Net cash flow	(34.2)	3.0	(3.4)	0.0	0.0

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	9.1	3.8	6.4	6.3	2.7
Net property income growth	14.5	3.0	6.7	8.6	3.6
Core net profit growth	13.5	4.3	11.5	7.0	3.6
Distributable income growth	18.0	4.9	4.4	7.0	3.6
Profitability ratios (%)					
Net property income margin	73.6	73.0	73.2	74.8	75.4
Core net profit margin	50.6	50.8	53.3	53.6	54.1
Payout ratio	102.6	94.7	99.9	100.1	100.2
DuPont analysis					
Total return margin (%)	51.5	57.3	53.3	53.6	54.0
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	1.5
ROAE (%)	7.0	7.7	7.3	7.3	7.1
ROAA (%)	4.2	4.3	4.5	4.5	4.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.7	2.6	2.7	2.8
Net gearing (%) (excl. perps)	53.3	53.8	57.0	53.2	50.4
Net interest cover (x)	4.7	5.2	5.3	4.9	4.8
Debt/EBITDA (x)	6.2	6.2	6.5	6.0	5.8
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	3,378.1	3,494.2	3,957.6	3,957.6	3,957.6
Debt/Assets (x)	0.33	0.34	0.35	0.34	0.33

Source: Company; Maybank

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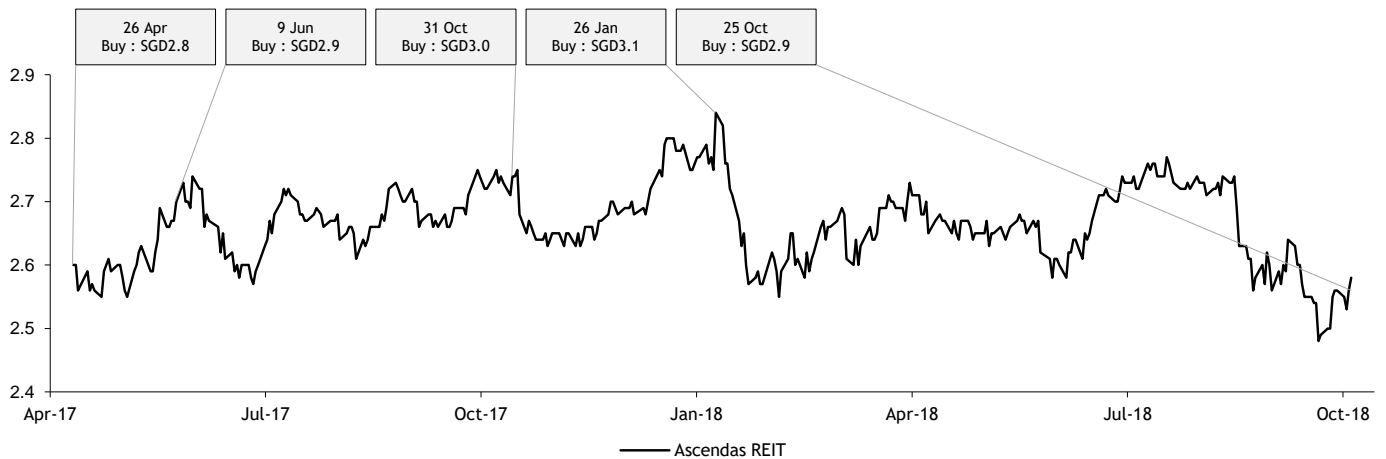
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