

# Ascendas REIT

Operationally stable



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## SINGAPORE | REAL ESTATE (REIT) | 3Q18 RESULTS

- Gross revenue and DPU in line with our forecast
- Positive renewal rate in Singapore kept the Total Portfolio renewal rate positive, outweighing the negative renewal rate in Australia
- Slight dip in occupancy for both Singapore and Australia portfolios
- Proposed acquisition of speculative build property in Australia

### Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Gross revenue	217	209	4.1%	Acquisition of DNV/DSO in Singapore, 52 Fox Drive, 100 Wickham Street and 108 Wickham Street in Australia; partially offset by divestment of A-REIT City @ Jinqiao, 10 Woodlands Link and 13 International Business Park
Net property income	158	155	1.7%	11.2% lower property operating expenses
Distributable income	116	115	1.1%	
DPU (cents)	3.970	3.993	-0.6%	One-off property tax refund in 3Q17; 2.7% larger unit base

Source: Company, PSR

### The Positives

- Positive renewal rate of 3.1% for Total Portfolio: This was from Singapore (+5.8% reversion), where all property segments reported positive renewals except Logistics & Distribution Centres (-2.3%). Renewal rate in Australia was -1.0%, also attributable to the Logistics & Distribution Centres.
- Pro-active portfolio management: Proposed divestment of 84 Genting Lane in December 2017 for \$16.68mn, which is 68% higher than the original purchase price of \$10.0mn and 5.6% higher than the market valuation of \$15.8mn. No material impact to rental income as it contributed only \$2.0mn of GRI in FY16/17.
- Acquisition-driven growth: Acquired third office space in Australia in December 2017, at 108 Wickham Street in Queensland. (Not to be confused with 100 Wickham Street, which was acquired in September 2017.) We estimate the property to contribute ~\$7mn NPI in its first year, followed by its 3% to 4% per annum rental escalation.
- Gearing remains low at 35.2%: Available debt headroom of ~\$800mn (assuming 40% target leverage), potentially growing the portfolio by ~8%.

### The Negatives

- QoQ lower total portfolio occupancy from 92.0% to 91.1%: This was due to lower occupancy for both Singapore (from 90.1% to 88.8%) and Australia (from 98.7% to 98.5%) portfolios.

### Outlook

The outlook is stable. Contribution from acquisitions buffered the impact from the lower occupancy during 3Q FY17/18. We expect the same in the 4Q FY17/18 as only 5.1% of NLA is up for renewal. The tapering new supply of industrial space in 2018, should release some of the ongoing over-supply pressure.

### Maintain Accumulate; higher target price of \$2.89 (previously \$2.86)

Our forecast remains largely unchanged, after factoring in the acquisition of 108 Wickham Street, Australia in December 2017 and divestment of 84 Genting Lane (contributed 0.24% of FY16/17 GRI) in January 2018.

We expect a stable 5.8% yield and our target price gives an implied 1.36 times FY18e forward P/NAV multiple.

26 January 2018

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.750
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 2.890
TOTAL RETURN	10.9%

### COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	2,888
MARKET CAP (USD mn / SGD mn):	6079 / 7941
52 - WK HI/LO (SGD):	2.83 / 2.39
3M Average Daily T/O (mn):	8.15

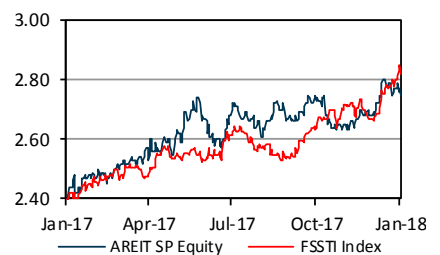
### MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	20.3%
MONDRIAN INVESTMENT PARTNERS LTD	8.1%
BLACKROCK	7.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.4	3.8	22.7
STI RETURN	6.6	8.6	22.5

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	761	831	865	889
NPI (SGD mn)	534	611	631	652
Dist. Inc. (SGD mn)	378	446	468	469
P/E (x)	17.2	17.2	17.1	17.0
P/NAV (x)	12	12	13	13
DPU (cents)	15.36	15.74	15.97	15.98
Distribution Yield (%)	6.3	6.2	5.8	5.8

Source: Company, PSR

### VALUATION METHOD

DDM (Cost of Equity: 6.9%; Terminal g: 15%)

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### Relative valuation

A-REIT is trading above the peer average P/NAV multiple and at a lower 12M-trailing yield than the peer average.

#### Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (\$ mn)	Price (\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,941	2.75	1.29	5.8
Mapletree Logistics Trust	4,127	1.35	1.29	5.4
Mapletree Industrial Trust	3,977	2.11	1.49	6.0
Frasers Logistics & Industrial Trust	1,763	1.16	1.24	6.0
AIMS AMP Capital Industrial REIT	943	1.38	1.01	7.1
Cache Logistics Trust	920	0.860	1.20	7.7
Viva Industrial Trust	912	0.940	1.19	7.7
ESR-REIT	742	0.565	0.80	6.8
Soilbuild Business Space REIT	735	0.700	1.10	8.4
Sabana Shari'ah Compliant REIT	437	0.415	0.73	8.1
<b>Average</b>			<b>1.13</b>	<b>6.9</b>

Source: Bloomberg (Updated: 25 January 2018), PSR

### Investment highlights

**Figure 1: Acquired 108 Wickham Street Business Park property in Brisbane, Australia on Dec 22, 2017**

Purchase Consideration	A\$106.2 million (S\$109.0 million <sup>(1)(2)</sup> )	 <p><b>108 Wickham Street, Fortitude Valley, Queensland</b></p> <p><b>The Property:</b> 6-storey office building with 141 carpark lots.</p> <p><b>Well-Located:</b> Located approximately 450m from the 'Golden Triangle', Brisbane's premier corporate precinct; close proximity to Fortitude Valley Train Station and Central Train station, multiple bus routes, the Story Bridge (linkage to South Bank) and three new inner-city road tunnels.</p> <p>(1) All S\$ amount based on exchange rate of A\$1.00: S\$1.0258 as at 30 Nov 2017. (2) Includes outstanding incentives reimbursed by the Vendor. (3) Valuation by Jones Lang Lasalle Advisory Services Pty Ltd, using the capitalisation method and discounted cashflow method.</p>
Acquisition Fee, Stamp Duty and Other Transaction Costs	A\$7.7 million (S\$7.9 million)	
Total Acquisition Cost	A\$113.9 million (S\$116.9 million)	
Vendor	108 Wickham Pty Ltd	
Valuation <sup>(1)(3)</sup> (as at 22 December 2017)	A\$106.2 million <sup>(1)</sup> (S\$109.0 million)	
Land Area	2,796 sqm	
Land Tenure	Freehold	
Lettable Floor Area	11,913 sqm	
Occupancy	100%	
Weighted Average Lease Expiry (31 Dec 2017)	6.4 years	
Key Tenants	<ul style="list-style-type: none"> <li>State of Queensland (Department of Health)</li> <li>ARUP (Brisbane HQ) - Independent firm</li> </ul>	
Initial NPI Yield	6.5% (6.1% post-cost yield)	
Completion Date	22 Dec 17	

Source: Company 3Q FY18 Financial Results Presentation, 25 January 2018

**Figure 2: Divested 84 Genting Lane, Singapore on Jan 19, 2018**

Description	Located in the established industrial estate bounded by MacPherson Road, Jalan Kolar Ayer and Aljunied Road	 <p><b>84 Genting Lane</b></p>
Remaining Land Tenure (as at 30 Sep 17)	~22.0 years	
Net Lettable Area	9,737 sqm	
Acquisition Year/ Price	2005/ S\$10.0m	
Book Value (as at 31 Mar 17)	S\$15.8m	
Sales Price	S\$16.7m	
Pro-forma Net Property Income	S\$1.2m	
Buyer	Axxel Marketing Pte Ltd	
Capital Gains over Original Costs	S\$5.3m	
Completion Date	19 Jan 18	

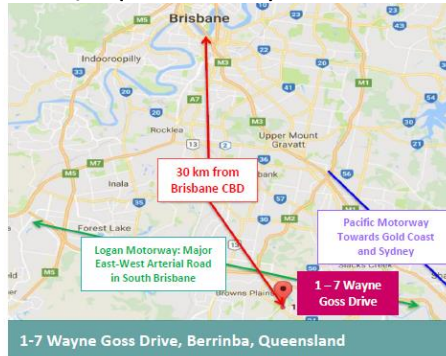
Source: Company 3Q FY18 Financial Results Presentation, 25 January 2018

**Acquisition of speculative build property in Australia**

At S\$30.8mn, the property value is ~0.3% of current AUM. Hence we do not think this will be a material contribution to the portfolio. The benefit is it will diversify the portfolio's sources of income, and further mitigate the reliance on any one property.

**Figure 3: Proposed acquisition, expected completion 3Q FY18/19 (i.e. 4Q CY2018)**

Land and Development cost	A\$30.0 million (S\$30.8 million) (1)(2)
Acquisition Fee, Stamp Duty and Other Transaction Costs	A\$1.0 million (S\$1.0 million)
<b>Total Investment Cost</b>	<b>A\$31.0 million (S\$31.8 million)</b>
Developer	Goodman Property Services (Aust) Pty Ltd ("Goodman")
"As if Complete" Valuation <sup>(3)</sup>	A\$30.0 million (S\$30.8 million)
Land Area	30,196 sqm
Land Tenure	Freehold
Lettable Floor Area	17,880 sqm
Initial NPI Yield	6.7% (6.5% post-cost yield)
Estimated Construction Completion Date	3Q FY18/19



**The Property:** The property, which will be developed by Goodman, has a generic design and layout and is functional and efficient for a wide range of users. It is designed with sub-division flexibility to accommodate up to 2 tenants.

**Well-Located:** In the established industrial precinct of Berrinba, 30km south of Brisbane CBD. Has good access to Logan, Gateway and Pacific Motorways.

(1) All S\$ amount based on exchange rate of A\$1.00: S\$1.0258 as at 30 Nov 2017.  
 (2) Includes rental guarantee provided by the Vendor.  
 (3) The valuation (dated 31 Oct 2017) was commissioned by the Manager and Perpetual Trust Limited, in its capacity as trustee of Ascendas Longbeach Trust No.9, and was carried out by Jones Lang Lasalle Advisory Services Pty Ltd, using the capitalisation method and discounted cashflow method.

Source: Company 3Q FY18 Financial Results Presentation, 25 January 2018

## Financials

### Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross revenue</b>	<b>673</b>	<b>761</b>	<b>831</b>	<b>865</b>	<b>889</b>
Property expenses	(211)	(227)	(220)	(233)	(238)
<b>Net property income</b>	<b>463</b>	<b>534</b>	<b>611</b>	<b>631</b>	<b>652</b>
Net Finance (Expense)/Inc.	(105)	(77)	(111)	(102)	(109)
Manager's fees	(38)	(60)	(50)	(50)	(49)
Other items	(51)	(23)	(12)	33	(9)
<b>Net income</b>	<b>268</b>	<b>373</b>	<b>438</b>	<b>512</b>	<b>485</b>
FV change, derivatives & ppties	136	8	(30)	(37)	-
Share of JV's results	-	0.04	0.48	0.39	-
<b>Total Return Before Tax</b>	<b>404</b>	<b>381</b>	<b>408</b>	<b>475</b>	<b>485</b>
Taxation	(7)	(25)	19	(5)	(12)
<b>Total Return After Tax</b>	<b>398</b>	<b>356</b>	<b>427</b>	<b>471</b>	<b>473</b>
Distribution adjustments	(46)	23	19	(3)	(4)
<b>Income available for distribution</b>	<b>351</b>	<b>378</b>	<b>446</b>	<b>468</b>	<b>469</b>

### Per share data (cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
NAV	208.0	206.0	206.0	211.7	211.4
EPU	16.54	14.21	14.83	16.08	16.14
DPU	14.60	15.36	15.74	15.97	15.98

\*Forward EPU does not include change in Fair Value of Investment Properties

### Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Total return	404	381	408	475	485
Adjustments	(29)	94	151	81	119
WC changes	(10)	11	(24)	17	(6)
Cash generated from ops	365	486	536	574	598
Others	(2)	(4)	(7)	(5)	(12)
<b>Cashflow from ops</b>	<b>362</b>	<b>482</b>	<b>529</b>	<b>569</b>	<b>586</b>
<b>CFI</b>					
CAPEX, net	(102)	(158)	(103)	(95)	(12)
Purchase of Inv. Propty., net	(541)	(1,339)	(89)	(105)	-
Others	6	4	54	7	2
<b>Cashflow from investments</b>	<b>(638)</b>	<b>(1,492)</b>	<b>(138)</b>	<b>(192)</b>	<b>(10)</b>
<b>CFF</b>					
Share issuance, net	-	645	155	-	-
Loans, net of repayments	577	920	50	64	-
Distributions	(261)	(442)	(515)	(309)	(477)
Others	(68)	(96)	(116)	(110)	(111)
<b>Cashflow from financing</b>	<b>249</b>	<b>1,027</b>	<b>(426)</b>	<b>(354)</b>	<b>(588)</b>
<b>Net change in cash</b>	<b>(27)</b>	<b>16</b>	<b>(35)</b>	<b>23</b>	<b>(12)</b>
Beginning cash	67	42	56	22	45
Effects of exchange rate	0.8	(1.7)	0.3	-	-
<b>Ending cash</b>	<b>42</b>	<b>56</b>	<b>22</b>	<b>45</b>	<b>33</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

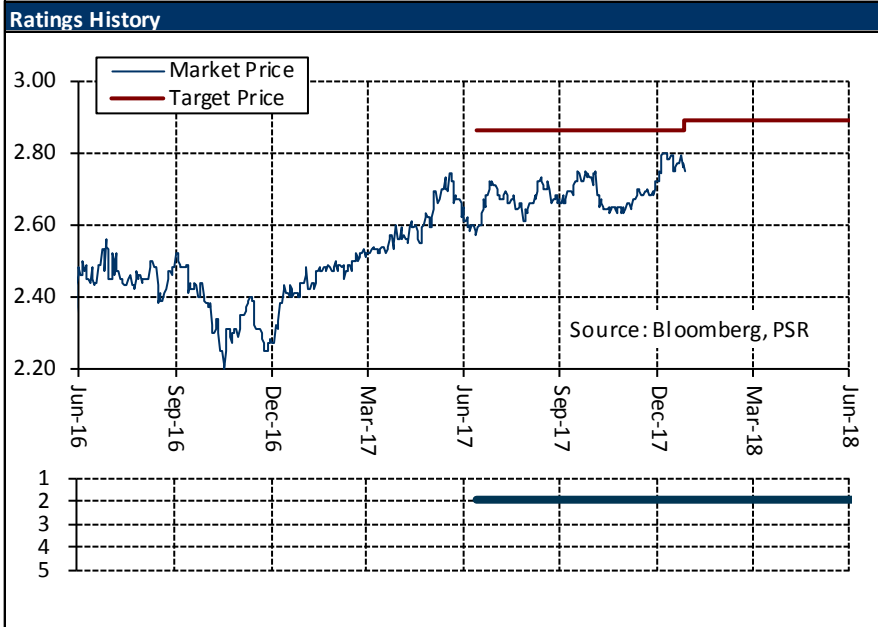
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	7,868	9,599	9,874	10,227	10,239
Inv. Propty. Under Devmnt.	-	-	125	-	-
Associates/JVs	-	0.04	0.13	0.13	0.13
PPE	0.26	0.07	-	-	-
Others	135	90	72	72	72
<b>Total non-current assets</b>	<b>8,003</b>	<b>9,689</b>	<b>10,071</b>	<b>10,299</b>	<b>10,311</b>
Trade receivables	90	89	63	66	68
Cash	42	56	22	45	33
Others	26	36	14	14	14
<b>Total current assets</b>	<b>157</b>	<b>181</b>	<b>100</b>	<b>125</b>	<b>115</b>
<b>Total Assets</b>	<b>8,160</b>	<b>9,870</b>	<b>10,171</b>	<b>10,424</b>	<b>10,425</b>
<b>LIABILITIES</b>					
Borrowings	286	1,180	824	774	774
Trade payables	189	172	193	213	209
Others	33	44	105	105	105
<b>Total current liabilities</b>	<b>507</b>	<b>1,396</b>	<b>1,122</b>	<b>1,092</b>	<b>1,088</b>
Borrowings	2,442	2,484	2,576	2,690	2,690
Others	198	205	138	138	138
<b>Total non-current liabilities</b>	<b>2,640</b>	<b>2,689</b>	<b>2,714</b>	<b>2,828</b>	<b>2,828</b>
<b>Total Liabilities</b>	<b>3,147</b>	<b>4,085</b>	<b>3,836</b>	<b>3,920</b>	<b>3,916</b>
<b>Net assets</b>	<b>5,014</b>	<b>5,785</b>	<b>6,335</b>	<b>6,504</b>	<b>6,510</b>
<b>Represented by:</b>					
Unitholders' funds	5,014	5,481	6,031	6,203	6,209
Perp. securities holders	-	304	304	304	304
Non-controlling interests	0.04	0.02	0.03	0.02	0.02

### Valuation Ratios

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	15.8	17.2	17.2	17.1	17.0
P/NAV (x)	1.3	1.2	1.2	1.3	1.3
P/DPU (x)	17.9	16.0	16.2	17.2	17.2
Distribution Yield (%)	5.6	6.3	6.2	5.8	5.8
NPI yield (%)	6.3	6.1	6.2	6.2	6.4
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	9.8%	13.0%	9.1%	4.1%	2.8%
Net property income (NPI)	6.1%	15.3%	14.5%	3.4%	3.2%
Distributable income	2.7%	7.7%	18.0%	4.7%	0.3%
DPU	2.5%	5.2%	2.5%	1.4%	0.1%
<b>Margins</b>					
NPI margin	68.7%	70.1%	73.6%	73.0%	73.3%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	2,686	3,608	3,378	3,419	3,431
Gearing (%)	33.4%	37.1%	33.4%	33.2%	33.2%



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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