

# Ascendas REIT

## Acquired second UK portfolio



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### SINGAPORE | REAL ESTATE (REIT) | 2Q19 RESULTS

26 October 2018

- Gross revenue and DPU were within expectation
- Acquisition of the second UK portfolio was completed on Oct. 4, subsequent to 2Q19
- Maintain Accumulate; new target price of \$2.78 (previous \$2.82)

#### Results at a glance

(SGD mn)	2Q19	2Q18	YoY	Comments
Gross revenue	218	216	+1.1%	Acquisitions in Australia: 100 Wickham Street, 108 Wickham Street; Acquisition in UK: First portfolio of 12 logistics properties
Net property income	159	161	-1.0%	7.1% higher property operating expenses
Distributable income	115	119	-3.1%	16.2% higher interest costs
DPU (cents)	3.887	4.059	-4.2%	Effect of 6.2% larger unit base from Private Placement in Sept. 2018; Advance distribution of 7.25 cents paid. 1H19 DPU of 7.889 cents, so 0.639 cent remains to be paid

Source: Company, PSR

#### The Positives

- Positive rental reversions across all segments in Singapore.** Rental reversions ranged between +0.3% and 3.0% across the five segments. There were no renewals signed in Australia and UK.
- Long WALE of 14.5 years for the UK portfolio mitigates uncertainty of Brexit.** The earliest lease expiry in the UK portfolio is in FY22. A-REIT's total portfolio weighted average lease expiry (WALE) is 4.3 years.
- Higher proportion of borrowings are on fixed rate, thus mitigating interest rate risk.** 84.6% of borrowings are on fixed rate, compared to 72.4% in the previous quarter. Meanwhile, all-in debt cost which has risen 10bps QoQ to 3.0%. Average debt maturity has improved QoQ from 3.7 years to 3.2 years.

#### The Negatives

- Lower Singapore occupancy, mainly due to non-renewals at logistics properties.** Singapore portfolio is lower QoQ from 88.1% to 87.1%. The addition of the first UK portfolio (100% occupied) helped to lift A-REIT's total portfolio occupancy marginally by 0.1pps to 90.6%. Australia occupancy was marginally lower QoQ by 0.1pps to 98.5%.
- Expect aggregate leverage to increase due to the second UK portfolio.** Current leverage of 33.2% is lower than previous quarter's 35.7% due to the Private Placement. However, we estimate leverage to rise to 36.4% by the end of FY19, due to the acquisition of the second UK portfolio that was completed on Oct. 4.

#### Outlook

The outlook is mixed. Singapore occupancy likely to continue being under pressure, as existing supply has to be absorbed. Total portfolio faces 4.4% of expiry by gross rental income in 2H FY19, almost entirely in Singapore. The asset type that is most exposed to renewal risk is Logistics & Distribution Centres (37% of Singapore expiries). Portfolio's distributable income will grow from the recent acquisitions. However, DPU for the next three quarters is expected to be lower YoY, due to the effect of the Private Placement.

#### Maintain Accumulate; new target price of \$2.78 (previously \$2.82)

Lower target price as we temper our expectation on rental growth for the Singapore portfolio. Nonetheless, we expect the yield of ~6% to remain stable and our target price gives an implied 1.30 times FY19e forward P/NAV multiple.

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.580
FORECAST DIV	SGD 0.155
TARGET PRICE	SGD 2.780
TOTAL RETURN	13.8%

#### COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	3,108
MARKET CAP (USD mn / SGD mn):	5813 / 8020
52 - WK HI/LO (SGD):	2.86 / 2.45
3M Average Daily T/O (mn):	10.61

#### MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	18.9%
BLACKROCK	7.1%
MONDRIAN INVESTMENT PARTNERS LTD	5.5%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(12)	(3.9)	16
STIRETURN	(5.8)	(6.4)	(5.7)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Mar	FY 17	FY 18	FY 19e	FY 20e
Gross Rev. (SGD mn)	831	862	889	941
NPI (SGD mn)	611	629	650	688
Dist. Inc. (SGD mn)	446	468	470	481
P/E (x)	17.0	16.0	16.6	16.1
P/NAV (x)	12	12	12	12
DPU (cents)	15.74	15.99	15.51	15.42
Distribution Yield (%)	6.2	6.1	6.0	6.0

Source: Company, PSR

#### VALUATION METHOD

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

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Gross revenue</b>	<b>761</b>	<b>831</b>	<b>862</b>	<b>889</b>	<b>941</b>
Property expenses	(227)	(220)	(233)	(239)	(253)
<b>Net property income</b>	<b>534</b>	<b>611</b>	<b>629</b>	<b>650</b>	<b>688</b>
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(115)	(119)
Manager's fees	(60)	(50)	(51)	(54)	(56)
Other items	(23)	(12)	5	(17)	(9)
<b>Net income</b>	<b>373</b>	<b>438</b>	<b>483</b>	<b>465</b>	<b>505</b>
FV change, derivatives & ppties	8	(30)	14	11	-
Share of JV's results	0.04	0.48	0.51	0.50	0.50
<b>Total Return Before Tax</b>	<b>381</b>	<b>408</b>	<b>497</b>	<b>477</b>	<b>505</b>
Taxation	(25)	19	(3)	(8)	(7)
<b>Total Return After Tax</b>	<b>356</b>	<b>427</b>	<b>494</b>	<b>469</b>	<b>498</b>
Distribution adjustments	23	19	(26)	1	(17)
<b>Income available for distribution</b>	<b>378</b>	<b>446</b>	<b>468</b>	<b>470</b>	<b>481</b>

### Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV	206.0	206.0	212.0	213.4	213.8
EPU	14.21	14.83	16.40	15.51	15.99
DPU	15.36	15.74	15.99	15.51	15.42

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

### Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Total return	381	408	497	477	505
Adjustments	94	151	84	134	130
WC changes	11	(24)	(18)	40	4
Cash generated from ops	486	536	564	651	639
Others	(4)	(7)	(25)	(8)	(7)
<b>Cashflow from ops</b>	<b>482</b>	<b>529</b>	<b>539</b>	<b>643</b>	<b>632</b>
<b>CFI</b>					
CAPEX, net	(158)	(103)	(133)	(121)	(12)
Purchase of Inv. Propty., net	(1,339)	(89)	(166)	(871)	-
Others	4	54	23	10	10
<b>Cashflow from investments</b>	<b>(1,492)</b>	<b>(138)</b>	<b>(275)</b>	<b>(982)</b>	<b>(2)</b>
<b>CFF</b>					
Share issuance, net	645	155	-	452	-
Loans, net of repayments	920	50	121	483	-
Distributions	(442)	(515)	(309)	(486)	(477)
Others	(96)	(116)	(120)	(77)	(129)
<b>Cashflow from financing</b>	<b>1,027</b>	<b>(426)</b>	<b>(308)</b>	<b>373</b>	<b>(606)</b>
<b>Net change in cash</b>	<b>16</b>	<b>(35)</b>	<b>(44)</b>	<b>33</b>	<b>24</b>
Beginning cash	42	56	22	(23)	10
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
<b>Ending cash</b>	<b>56</b>	<b>22</b>	<b>(23)</b>	<b>10</b>	<b>34</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Note: FY18 cash and cash equivalents include a S\$48mn bank overdraft

### Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
Investment properties	9,599	9,874	10,119	11,101	11,222
Inv. Propty. Under Devmnt.	-	125	95	109	-
Others	90	72	62	62	62
<b>Total non-current assets</b>	<b>9,689</b>	<b>10,071</b>	<b>10,277</b>	<b>11,273</b>	<b>11,285</b>
Trade receivables	89	63	28	29	31
Cash	56	22	25	10	34
Others	36	14	24	24	24
<b>Total current assets</b>	<b>181</b>	<b>100</b>	<b>77</b>	<b>63</b>	<b>89</b>
<b>Total Assets</b>	<b>9,870</b>	<b>10,171</b>	<b>10,354</b>	<b>11,336</b>	<b>11,373</b>
<b>LIABILITIES</b>					
Borrowings	1,180	824	910	834	834
Trade payables	172	193	144	185	190
Others	44	105	50	50	50
<b>Total current liabilities</b>	<b>1,396</b>	<b>1,122</b>	<b>1,104</b>	<b>1,069</b>	<b>1,075</b>
Borrowings	2,484	2,576	2,609	3,179	3,179
Others	205	138	142	142	142
<b>Total non-current liabilities</b>	<b>2,689</b>	<b>2,714</b>	<b>2,752</b>	<b>3,322</b>	<b>3,322</b>
<b>Total Liabilities</b>	<b>4,085</b>	<b>3,836</b>	<b>3,856</b>	<b>4,391</b>	<b>4,397</b>
<b>Net assets</b>	<b>5,785</b>	<b>6,335</b>	<b>6,499</b>	<b>6,945</b>	<b>6,977</b>
<b>Represented by:</b>					
Unitholders' funds	5,481	6,031	6,194	6,641	6,673
Perp. securities holders	304	304	304	304	304
Non-controlling interests	0	0	0	(0)	(0)

### Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	16.8	17.0	16.0	16.6	16.1
P/NAV (x)	1.2	1.2	1.2	1.2	1.2
P/DPU (x)	15.6	16.0	16.4	16.6	16.7
Distribution Yield (%)	6.4	6.2	6.1	6.0	6.0
NPI yield (%)	6.1	6.2	6.2	6.1	6.1

### Growth & Margins (%)

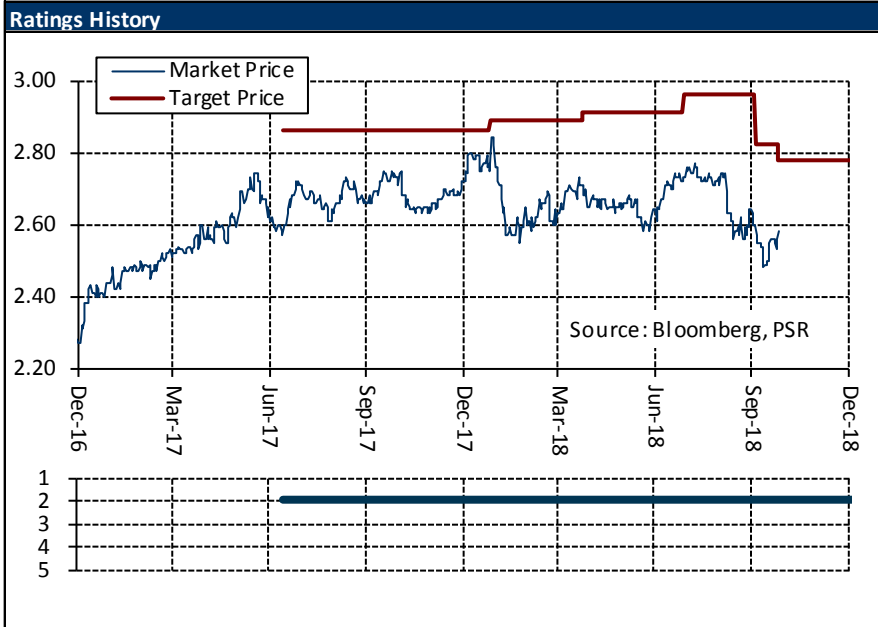
<b>Growth</b>					
Revenue	13.0%	9.1%	3.8%	3.1%	5.9%
Net property income (NPI)	15.3%	14.5%	3.0%	3.3%	5.8%
Distributable income	7.7%	18.0%	4.9%	0.3%	2.5%
DPU	5.2%	2.5%	1.6%	-3.0%	-0.6%

### Margins

NPI margin	70.1%	73.6%	73.0%	73.1%	73.1%
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### Key Ratios

Net Debt or (Net Cash)	3,608	3,378	3,494	4,003	3,979
Gearing (%)	37.1%	33.4%	34.0%	35.4%	35.3%



### 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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