

Ascendas REIT

Grabbing a new tenant



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SINGAPORE | REAL ESTATE (REIT) | 3Q19 RESULTS

- Gross revenue and DPU in line with expectation
- Almost full quarter contribution from Second UK portfolio of 26 logistics assets
- Build-to-suit development for Grab's new headquarters at one-north
- Maintain ACCUMULATE. Raised target price to \$2.88 (previously \$2.78) due to higher DPU estimate

Results at a glance

(SGD mn)	3Q19	3Q18	YoY	Comments
Gross revenue	226	217	+4.2%	Two acquisitions in Australia, UK acquisition of First and Second portfolios of logistics properties, and completed redevelopment of an asset in Singapore
Net property income	168	158	+6.6%	2.1% lower property operating expenses
Distributable income	124	116	+7.0%	
DPU (cents)	3.998	3.970	+0.7%	6.2% larger unit base: effect of Private Placement in Sept. 2018

Source: Company, PSR

The Positives

- Positive rental reversions across all segments in Singapore.** Rental reversions ranged between +1.7% and +10.3% across the five segments, with a weighted average of +3.2%. There were no renewals signed in Australia and UK.
- Acquisition of Second UK portfolio of 26 logistics properties was completed on 4 Oct.** S\$800mn UK portfolio is now 7% of A-REIT's total portfolio, compared to 3% in the previous quarter. The UK portfolio has a long weighted average lease expiry (WALE) of 11.3 years compared to Singapore WALE of 3.9 years, thus providing income visibility. The earliest lease expiry in the UK portfolio is in FY21.
- Total portfolio occupancy remains stable QoQ, inching up from 90.6% to 91.3%.** This was driven by the Singapore and UK portfolios. For Singapore, there were new take ups which improved occupancy to 87.3%, while the enlarged UK portfolio remained at 100% occupancy.
- Secured S\$181mn build-to-suit project for Grab's headquarters at one-north.** The asset will be a 42,310 sqm GFA business park property. The expected completion is in 4Q 2020. (For comparison, A-REIT's Giant Hypermart property in Tampines has a GFA of 42,194 sqm.) It will be on a long lease term of 11 years with annual rental escalation and renewal option for a further five years. In the grand scheme of things, the property will not make a material impact to A-REIT's portfolio which currently stands at S\$11.1bn.

The Negatives

- QoQ higher aggregate leverage, but it does not come as a surprise.** Leverage increased from 33.2% to 36.7% due to new debt to part-fund the second UK portfolio. In our [previous report](#), we estimated 36.4% leverage by the end of FY19.

Outlook

The outlook is positive. Total portfolio faces only 1.6% of expiry by gross rental income in 4Q19. While there is 18.6% of leases for renewal in FY20, it is mostly made up of multi-tenanted buildings; so the potential impact from single-tenant conversions is limited.

Maintain ACCUMULATE; new target price of \$2.88 (previously \$2.78)

We expect the yield of ~6% to remain stable due to the large portfolio that is diversified and not materially affected by any single property. Our target price gives an implied 1.34 times FY19e forward P/NAV multiple.

31 January 2019

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.720
FORECAST DIV	SGD 0.159
TARGET PRICE	SGD 2.880
TOTAL RETURN	11.7%

COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	3,111
MARKET CAP (USD mn / SGD mn):	6263 / 8461
52 - WK HI/LO (SGD):	2.83 / 2.45
3M Average Daily T/O (mn):	1148

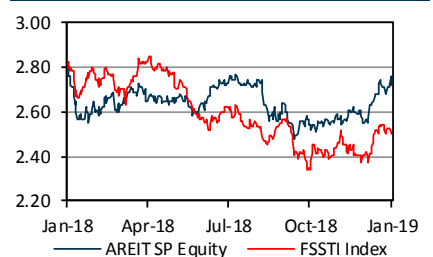
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	8.2	8.9	3.9
STI RETURN	4.4	7.2	(7.6)

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	891	925
NPI (SGD mn)	611	629	655	676
Dist. Inc. (SGD mn)	446	468	481	501
P/NAV (x)	12	12	13	13
DPU (cents)	15.74	15.99	15.88	16.06
Distribution Yield (%)	6.2	6.1	5.8	5.9

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
Gross revenue	761	831	862	891	925
Property expenses	(227)	(220)	(233)	(237)	(249)
Net property income	534	611	629	655	676
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(112)	(105)
Manager's fees	(60)	(50)	(51)	(54)	(56)
Other items	(23)	(12)	5	(26)	(9)
Net income	373	438	483	462	506
FV change, derivatives & pptides	8	(30)	14	31	-
Share of JV's results	0.04	0.48	0.51	0.54	0.55
Total Return Before Tax	381	408	497	493	507
Taxation	(25)	19	(3)	(10)	(7)
Total Return After Tax	356	427	494	484	499
Distribution adjustments	23	19	(26)	(3)	1
Income available for distribution	378	446	468	481	501

Per unit data

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV (cents)	206.0	206.0	212.0	214.1	213.7
DPU (cents)	15.36	15.74	15.99	15.88	16.06

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total Return Before Tax	381	408	497	493	507
Adjustments	94	151	84	120	117
WC changes	11	(24)	(18)	4	5
Cash generated from ops	486	536	564	617	628
Others	(4)	(7)	(25)	(10)	(7)
Cashflow from ops	482	529	539	607	621
CFI					
Purchase of Inv. propty., net	(1,339)	(89)	(166)	(871)	-
Capex, net	(158)	(103)	(133)	(121)	(12)
Others	4	54	23	10	10
Cashflow from investments	(1,492)	(138)	(275)	(982)	(2)
CFF					
Share issuance, net	645	155	-	452	-
Loans, net of repayments	920	50	121	570	-
Distributions	(442)	(515)	(309)	(477)	(508)
Others	(96)	(116)	(120)	(74)	(115)
Cashflow from financing	1,027	(426)	(308)	471	(623)
Net change in cash	16	(35)	(44)	96	(5)
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
Ending cash	56	22	(23)	73	68

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
ASSETS					
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
Total non-current assets	9,689	10,071	10,277	11,273	11,285
Trade receivables	89	63	28	29	30
Cash	56	22	25	73	68
Others	36	14	24	24	24
Total current assets	181	100	77	125	122
Total Assets	9,870	10,171	10,354	11,398	11,406
LIABILITIES					
Borrowings	1,180	824	910	910	910
Trade payables	172	193	144	149	154
Others	44	105	50	50	50
Total current liabilities	1,396	1,122	1,104	1,108	1,114
Borrowings	2,484	2,576	2,609	3,179	3,179
Others	205	138	142	142	142
Total non-current liabilities	2,689	2,714	2,752	3,322	3,322
Total Liabilities	4,085	3,836	3,856	4,430	4,436
Net assets	5,785	6,335	6,499	6,968	6,971
Represented by:					
Unitholders' funds	5,481	6,031	6,194	6,664	6,666
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/NAV (x)	1.16	1.22	1.24	1.27	1.27
Distribution Yield (%)	6.4	6.2	6.1	5.8	5.9
NPI yield (%)	6.1	6.2	6.2	6.1	6.0

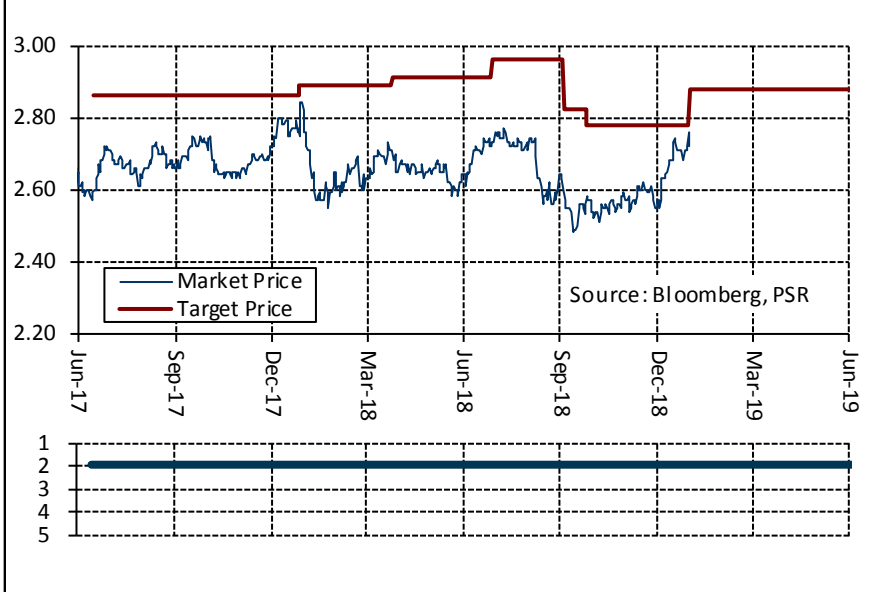
Growth & Margins (%)

Growth					
Revenue	13.0%	9.1%	3.8%	3.4%	3.8%
Net property income (NPI)	15.3%	14.5%	3.0%	4.0%	3.3%
Distributable income	7.7%	18.0%	4.9%	2.8%	4.2%
DPU	5.2%	2.5%	1.6%	-0.7%	1.2%
Margins					
NPI margin	70.1%	73.6%	73.0%	73.4%	73.1%

Key Ratios

Net Debt or (Net Cash)	3,608	3,378	3,494	4,017	4,022
Gearing (%)	37.1%	33.4%	34.0%	35.9%	35.9%

Ratings History



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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