

# Ascendas REIT

Stable and uneventful set of results



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## SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

31 October 2017

- Gross revenue and DPU in line with our forecast
- Total Portfolio achieved positive renewal rate and QoQ higher Total Portfolio occupancy
- Semi-annual DPU of 8.108 cents declared for 1H FY18

### Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Gross revenue	216	205	5.1%	Acquisition of 197-201 Coward Street and 52 Fox Drive in Australia, and 12, 14 and 16 Science Park Drive (DNV/DSO) in Singapore; partially offset by divestment A-REIT City @ Jinqiao
Net property income	161	152	5.3%	4.3% higher operating expenses
Distributable income	119	113	5.6%	
DPU (cents)	4.059	4.030	0.7%	3.9% larger unit base

Source: Company, PSR

### The positives

- Positive renewal rate of 3.1% for Total Portfolio: This was from Singapore, where all property segments registered between 0.2% and 11.3% renewal rates. The exceptionally high 11.3% renewal rate in the Integrated Development, Amenities & Retail segment was attributable to a renewal at Aperia, which corresponds to its first renewal cycle. There were no renewals in Australia during the quarter.
- QoQ higher total portfolio occupancy from 91.6% to 92.0%: Singapore occupancy was higher QoQ from 89.2% to 90.1%, mainly due to expansions and new take ups at LogisTech, 40 Penjuru Lane and 2 Senoko South Road.
- Gearing remains low at 33.1%: Available debt headroom of ~S\$1.0 bn (assuming 40% target leverage), potentially growing the portfolio by ~10%.

### The negatives

- Australia occupancy was down QoQ from 99.8% to 98.7%: This was due to a non-renewal at 1A & 1B Raffles Glade, Sydney. (The lease ended on 30 June 2017.) A new lease has been secured for the space and will commence in 3Q FY18.

### Outlook

The outlook is stable. There are no leases expiring in Australia for the remainder of the FY. 9.2% of Singapore leases by gross revenue expiring in the remainder of the FY. We expect recent acquisitions to drive gross rental growth in FY18 by 4.3% YoY and DPU growth of 0.9% YoY.

### Maintain Accumulate; unchanged target price of \$2.86

Our forecast remains largely unchanged, after incorporating the 1H FY18 results, acquisition of 100 Wickham Street in Australia and divestment of 13 International Business Park during 2Q FY18.

We do not incorporate the divestment of 10 Woodlands Link in 2Q FY18 in this instance, as it was divested before the 1Q FY18 results were announced and are already reflected in our estimates.

We expect a stable 5.9% yield and our target price gives an implied FY18e P/NAV multiple of 1.35x, which compares against the FTSE REIT Index forward 12-months P/NAV multiple of 1.06x.

### Accumulate (Maintain)

LAST CLOSE PRICE	SGD 2.710
FORECAST DIV	SGD 0.159
TARGET PRICE	SGD 2.860
TOTAL RETURN	11.4%

### COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	2,886
MARKET CAP (USD mn / SGD mn):	5736 / 7820
52 - WK HI/LO (SGD):	2.76 / 2.2
3M Average Daily T/O (mn):	8.09

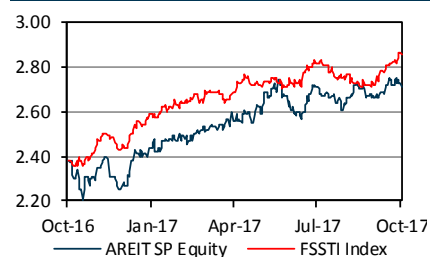
### MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	20.2%
MONDRIAN INVESTMENT PARTNERS LTD	8.4%
BLACKROCK	6.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	2.6	0.4	17.9
STI RETURN	4.7	2.2	23.7

### 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	866	887
NPI (SGD mn)	534	611	632	649
Dist. Inc. (SGD mn)	378	446	458	470
P/E (x)	17.2	17.2	16.7	16.8
P/NAV (x)	12	12	13	13
DPU (cents)	15.36	15.74	15.88	15.99
Distribution Yield (%)	6.3	6.2	5.9	5.9

Source: Company, PSR

### VALUATION METHOD

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

Richard Leow, CFTe, FRM (+65 6212 1848)

Investment Analyst

richardleowwt@phillip.com.sg

### 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. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,820	2.71	1.30	5.8
Mapletree Logistics Trust	3,908	1.280	1.24	5.7
Mapletree Industrial Trust	3,461	1.920	1.37	6.1
Frasers Logistics & Industrial Trust	1,685	1.115	1.21	6.3
Viva Industrial Trust	941	0.970	1.23	7.5
AIMS AMP Capital Industrial REIT	918	1.435	1.05	7.5
Cache Logistics Trust	875	0.820	1.06	8.3
ESR-REIT	733	0.560	0.89	7.0
Soilbuild Business Space REIT	704	0.670	0.94	8.8
Sabana Shari'ah Compliant REIT	484	0.460	0.81	7.3
<b>Average</b>			<b>1.11</b>	<b>7.0</b>

Source: Bloomberg (Updated: 30 October 2017), PSR

\* Frasers Logistics & Industrial Trust does not have a 12-month track-record.

### Investment highlights

#### Figure 1: Acquisition of 100 Wickham Street Business Park property in Brisbane, Australia

Purchase Consideration	A\$83.8 million	 <p><b>100 Wickham Street, Fortitude Valley, Queensland</b></p> <p><b>The Property:</b> 14-storey office building with 2 levels of basement carpark.</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>
Acquisition Fee, Stamp Duty and Other transaction costs <sup>(1)</sup>	A\$6.1 million	
Total Acquisition Cost	A\$89.9 million	
Vendor	100W Pty Ltd	
Land Area	2,975 sqm	
Land Tenure	Freehold	
Lettable Floor Area	13,131 sqm	
Occupancy	100%	
Weighted Average Lease Expiry	4.8 years	
Key Tenants	<ul style="list-style-type: none"> <li>State of Queensland (Department of Health)</li> <li>3 data centres operators</li> </ul>	
Initial NPI Yield	7.6% (7.1% post-cost yield)	
Completion Date	25 Sep 17	

Source: Company 2Q FY18 Financial Results Presentation, 30 October 2017

#### Figure 2: Divestment of 13 International Business Park, Singapore

Description	7-storey business park building designed with column-free floor plates	 <p><b>13 International Business Park</b></p>
Remaining Land Tenure (as at 30 Jun 17)	~47.0 years	
Net Lettable Area	6,986 sqm	
Acquisition Year/ Price	2006/ S\$20.0m	
Book Value (as at 31 Mar 17)	S\$22.4m	
Sales Price	S\$24.8m	
Pro-forma Net Property Income	S\$0.32m	
Buyer	Pension Real Estate Singapore Pte Ltd	
Capital gains over original costs	S\$4.6m	
Completion Date	24 Aug 17	

Source: Company 2Q FY18 Financial Results Presentation, 30 October 2017

## 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>866</b>	<b>887</b>
Property expenses	(211)	(227)	(220)	(234)	(238)
<b>Net property income</b>	<b>463</b>	<b>534</b>	<b>611</b>	<b>632</b>	<b>649</b>
Net Finance (Expense)/Inc.	(105)	(77)	(111)	(103)	(105)
Manager's fees	(38)	(60)	(50)	(50)	(49)
Other items	(51)	(23)	(12)	19	(9)
<b>Net income</b>	<b>268</b>	<b>373</b>	<b>438</b>	<b>498</b>	<b>485</b>
FV change, derivatives & pptides	136	8	(30)	(16)	-
Share of JV's results	-	0.04	0.48	0.25	-
<b>Total Return Before Tax</b>	<b>404</b>	<b>381</b>	<b>408</b>	<b>483</b>	<b>485</b>
Taxation	(7)	(25)	19	(6)	(11)
<b>Total Return After Tax</b>	<b>398</b>	<b>356</b>	<b>427</b>	<b>476</b>	<b>474</b>
Distribution adjustments	(46)	23	19	(18)	(4)
<b>Income available for distribution</b>	<b>351</b>	<b>378</b>	<b>446</b>	<b>458</b>	<b>470</b>

### Per share data (cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
NAV	208.0	206.0	206.0	211.9	211.7
EPU	16.54	14.21	14.83	16.28	16.16
DPU	14.60	15.36	15.74	15.88	15.99

\*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	483	485
Adjustments	(29)	94	151	85	115
WC changes	(10)	11	(24)	(11)	0
Cash generated from ops	365	486	536	557	600
Others	(2)	(4)	(7)	(6)	(11)
<b>Cashflow from ops</b>	<b>362</b>	<b>482</b>	<b>529</b>	<b>551</b>	<b>589</b>
<b>CFI</b>					
CAPEX, net	(102)	(158)	(103)	(95)	(12)
Purchase of Inv. Propty., net	(541)	(1,339)	(89)	(8)	-
Others	6	4	54	5	2
<b>Cashflow from investments</b>	<b>(638)</b>	<b>(1,492)</b>	<b>(138)</b>	<b>(97)</b>	<b>(10)</b>
<b>CFF</b>					
Share issuance, net	-	645	155	-	-
Loans, net of repayments	577	920	50	(50)	-
Distributions	(261)	(442)	(515)	(309)	(475)
Others	(68)	(96)	(116)	(108)	(107)
<b>Cashflow from financing</b>	<b>249</b>	<b>1,027</b>	<b>(426)</b>	<b>(467)</b>	<b>(583)</b>
<b>Net change in cash</b>	<b>(27)</b>	<b>16</b>	<b>(35)</b>	<b>(13)</b>	<b>(4)</b>
Beginning cash	67	42	56	22	9
Effects of exchange rate	0.8	(1.7)	0.3	-	-
<b>Ending cash</b>	<b>42</b>	<b>56</b>	<b>22</b>	<b>9</b>	<b>5</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

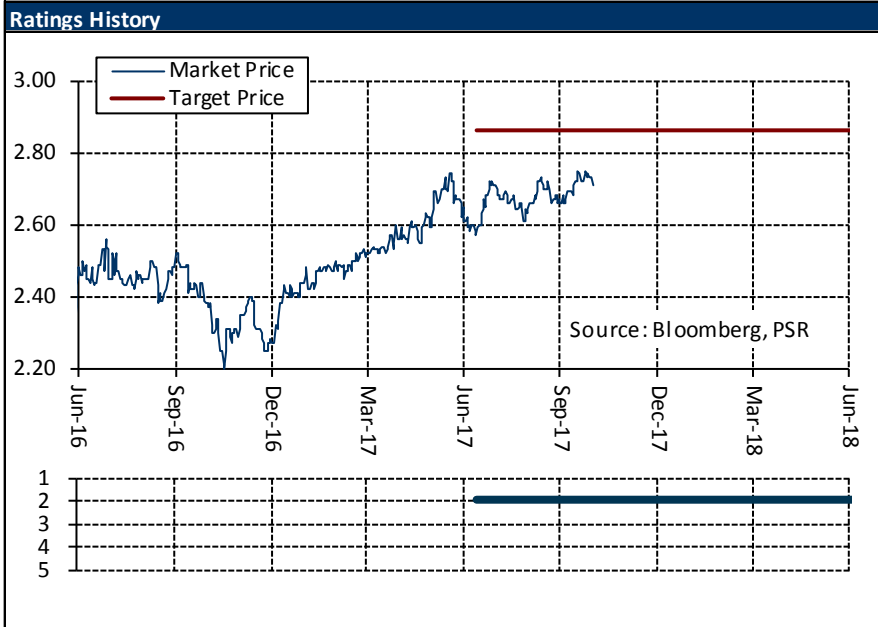
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	7,868	9,599	9,874	10,102	10,114
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>10,173</b>	<b>10,185</b>
Trade receivables	90	89	63	95	90
Cash	42	56	22	9	5
Others	26	36	14	14	14
<b>Total current assets</b>	<b>157</b>	<b>181</b>	<b>100</b>	<b>117</b>	<b>109</b>
<b>Total Assets</b>	<b>8,160</b>	<b>9,870</b>	<b>10,171</b>	<b>10,291</b>	<b>10,294</b>
<b>LIABILITIES</b>					
Borrowings	286	1,180	824	774	774
Trade payables	189	172	193	213	208
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>1,087</b>
Borrowings	2,442	2,484	2,576	2,576	2,576
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>2,714</b>	<b>2,714</b>
<b>Total Liabilities</b>	<b>3,147</b>	<b>4,085</b>	<b>3,836</b>	<b>3,806</b>	<b>3,801</b>
<b>Net assets</b>	<b>5,014</b>	<b>5,785</b>	<b>6,335</b>	<b>6,485</b>	<b>6,493</b>
<b>Represented by:</b>					
Unitholders' funds	5,014	5,481	6,031	6,208	6,217
Perp. securities holders	-	304	304	304	304
Non-controlling interests	0.04	0.02	0.03	0.03	0.03

### Valuation Ratios

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	15.8	17.2	17.2	16.7	16.8
P/NAV (x)	1.3	1.2	1.2	1.3	1.3
P/DPU (x)	17.9	16.0	16.2	17.1	16.9
Distribution Yield (%)	5.6	6.3	6.2	5.9	5.9
NPI yield (%)	6.3	6.1	6.2	6.3	6.4
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	9.8%	13.0%	9.1%	4.3%	2.4%
Net property income (NPI)	6.1%	15.3%	14.5%	3.4%	2.6%
Distributable income	2.7%	7.7%	18.0%	2.7%	2.5%
DPU	2.5%	5.2%	2.5%	0.9%	0.7%
<b>Margins</b>					
NPI margin	68.7%	70.1%	73.6%	73.0%	73.1%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	2,686	3,608	3,378	3,341	3,345
Gearing (%)	33.4%	37.1%	33.4%	32.6%	32.5%



### 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

## Contact Information (Singapore Research Team)

## Head of Research

Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)

## Research Operations Officer

Mohamed Amiruddin – [amiruddin@phillip.com.sg](mailto:amiruddin@phillip.com.sg)

## Consumer | Healthcare

Soh Lin Sin – [sohls@phillip.com.sg](mailto:sohls@phillip.com.sg)

## Oil &amp; Gas | Energy

Chen Guangzhi – [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)

## Macro

Pei Sai Teng – [peist@phillip.com.sg](mailto:peist@phillip.com.sg)

## Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –  
[richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)

## REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – [tandh@phillip.com.sg](mailto:tandh@phillip.com.sg)

## Technical Analysis

Jeremy Ng – [jeremyngch@phillip.com.sg](mailto:jeremyngch@phillip.com.sg)

## Banking and Finance

Jeremy Teong – [jeremyteongfh@phillip.com.sg](mailto:jeremyteongfh@phillip.com.sg)

## US Equity

Ho Kang Wei – [hokw@phillip.com.sg](mailto:hokw@phillip.com.sg)

## Contact Information (Regional Member Companies)

## SINGAPORE

## Phillip Securities Pte Ltd

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

## MALAYSIA

## Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

## HONG KONG

## Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

## JAPAN

## Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

## INDONESIA

## PT Phillip Securities Indonesia

ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

## CHINA

## Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

## THAILAND

## Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

## FRANCE

## King &amp; Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## UNITED KINGDOM

## King &amp; Shaxson Capital Limited

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## UNITED STATES

## Phillip Capital Inc

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

## AUSTRALIA

## Phillip Capital Limited

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## SRI LANKA

## Asha Phillip Securities Limited

2<sup>nd</sup> Floor, Lakshmans Building,  
No. 321, Galle Road,  
Colombo 03, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

## INDIA

## PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

## TURKEY

## PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

## DUBAI

## Phillip Futures DMCC

Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

## CAMBODIA

## Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

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