

# Ascendas REIT

Increasing footprint in the United Kingdom



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## SINGAPORE | REAL ESTATE (REIT) | UPDATE

4 October 2018

- Completed aggregate S\$425.8mn acquisitions in Australia and UK during 2Q FY18/19
- Disposal in Singapore worth S\$13.6mn, recognising a gain of S\$2mn
- Placement of 178mn New Units in September increased unit base by 6.1%
- Proposed acquisition of second portfolio of 26 logistics properties in UK for S\$549.2mn
- Maintain Accumulate; new target price of \$2.82 (previously \$2.96)

### What is the news?

Ascendas REIT (A-REIT) had an active quarter of acquisitions and fund raising. We list here the various activities during the quarter in chronological order.

- Acquired portfolio of 12 logistics properties in UK for £200mn (S\$360.1mn)**  
 Acquisition was completed on Aug. 16. The properties are located across the United Kingdom (UK) with gross internal area of 242,633 sq m and are sited on freehold and 999-year leasehold land. The acquisition was funded with GBP-denominated loans. Initial NPI yield of 5.22%.
- Divested No. 41 Changi South Avenue 2 for S\$13.6mn**  
 Divestment was completed on Aug. 20. The sale price was 0.6% higher than the original purchase price of S\$13.5mn and 17.0% higher than last valued at S\$11.6mn. Will recognise a divestment gain of S\$2mn.
- Acquired No. 1-7 Wayne Goss Drive in Brisbane, Australia for A\$31.0mn (S\$31.8mn)**  
 Acquisition was completed on Sept. 7. The asset is on freehold land and acquired at an initial NPI yield of 6.5%. The acquisition was funded by internal resources and existing debt facilities.
- Acquired Cargo Business Park in Brisbane, Australia for A\$33.5mn (S\$33.9mn)**  
 Acquisition was completed on Sept. 17. The asset is on freehold land and acquired at an initial NPI yield of 6.8%. The acquisition was funded by internal resources and existing debt facilities.
- Placement of 178,007,000 New Units at S\$2.54 each, raising S\$452.1mn**  
 Approximately S\$250mn to partially fund the second UK logistics portfolio, ~S\$109mn to partially fund the development of a build-to-suit facility in Singapore, ~S\$87.1mn to repay debt, and ~S\$3.9mn to pay the estimated fees and expenses. An Advanced Distribution of 7.25 cents/unit for the period from April 1 to Sept. 17 will be paid to existing unitholders. There are 3,108,438,055 Units in issue after the Placement.
- Proposed acquisition of second portfolio of 26 logistics properties in UK for £257.5mn (S\$459.2mn)**  
 The properties are located across the UK with gross internal area of 266,184 sq m and are sited on freehold and 999-year leasehold land. The acquisition will be funded with proceeds from the Placement and GBP-denominated loans. Initial NPI yield of 5.39%.

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.600
FORECAST DIV	SGD 0.157
TARGET PRICE	SGD 2.820
<b>TOTAL RETURN</b>	<b>14.5%</b>

### COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	3,108
MARKET CAP (USD mn / SGD mn):	5855 / 8051
52 - WK HI/LO (SGD):	2.86 / 2.54
3M Average Daily T/O (mn):	9.75

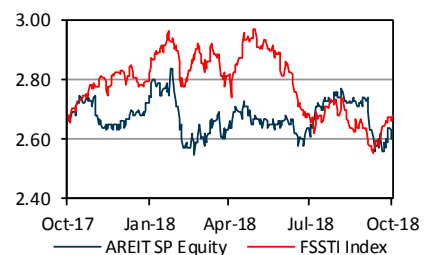
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.4)	2.4	5.8
STI RETURN	11	17	3.1

### 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	898	958
NPI (SGD mn)	611	629	659	703
Dist. Inc. (SGD mn)	446	468	477	503
P/E (x)	17.2	16.4	16.5	15.8
P/NAV (x)	12	13	12	12
DPU (cents)	15.74	15.99	15.72	16.12
Distribution Yield (%)	6.2	6.0	6.0	6.2

Source: Company, PSR

### VALUATION METHOD

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

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

Research Analyst

richardleowwt@phillip.com.sg

## How do we view this?

### The Positives

- + **Increasing geographical diversification.** Post-acquisition of the second UK portfolio, A-REIT portfolio composition by asset value will be approximately 78% Singapore, 14% Australia and 8% UK. The portfolio will be diversified across three countries, with Singapore remaining as the core market.
- + **WALE of UK portfolio is higher than existing, thus improving income visibility.** The weighted average lease expiry (WALE) of the first and second UK portfolios are 14.6 years and 9.1 years respectively. This compares favourably over A-REIT's existing portfolio WALE of 4.1 years as at end-June 2018.
- + **Both UK portfolios have high physical occupancy of 92%.** This is in line with the existing Singapore-Australia combined portfolio occupancy of 91.6% as at end-June 2018.
- + **Placement has minimal impact to distribution to existing unitholders.** A-REIT pays its distributions semi-annually, and an Advanced Distribution of 7.25 cents/unit for the period from April 1 to Sept. 17 has been declared for existing unitholders. This corresponds to the period up to the day immediately prior to the issue of the New Units from the Placement. The Advanced Distribution will be paid on Oct. 17. Recall that DPU for 1Q FY18/19 was 4.002 cents.

### The Negatives

- **Proposed second UK portfolio is DPU accretive, only if funded with excessive debt.** Management expects a pro forma DPU accretion of about 0.0223 cents, if funded by 52.5% equity and 47.5% GBP-denominated debt. The 47.5% debt-funding exceeds the statutory 45% ceiling and exceeds the manager's target capital structure of <40% gearing. Acquiring through over-leverage would eventually necessitate an equity fund raising to pare down debt. We have assumed 40% gearing for the acquisition to be in line with the target capital structure, effectively tempering expectation on DPU accretion.
- **Higher exposure to foreign currency fluctuation.** With the larger exposure to overseas assets, A-REIT also takes on foreign currency risks. AUD and GBP have depreciated -5.3% and -1.4% 9M-YTD respectively, relative to SGD.
- **Effective occupancy of 100% for both UK portfolios is supported by rental guarantees on five assets.** The first portfolio has one asset (Unit 3, Brookfields, Rotherham) with rental guarantee, and the second portfolio has four assets (Unit 5, Unit 8, Unit 13 and Unit 18 at Wellesbourne Distribution Park) with rental guarantee.
- **Aggregate leverage to creep up.** Following the completion of the acquisition of the second UK portfolio, pro forma gearing would be 37.7%, compared to 35.7% as at end-June 2018.

### Outlook

The outlook is stable. Post-acquisition WALE of 4.5 years offers income visibility. Tenancy risk profile has 8.8% of leases by gross rental income expiring in the remainder of FY18/19. The leases are substantially in Singapore; and the asset types that are most exposed to renewal risk are Logistics & Distribution Centres, Business and Science Parks, and Hi-Specifications Industrial and Data Centres. With the exception of Logistics & Distribution Centres, rental reversions are expected to be positive for the other two asset types.

### Maintain Accumulate; new target price of \$2.82 (previously \$2.96)

We expect the yield of ~6% to remain stable and our target price gives an implied 1.32 times FY18/19e forward P/NAV multiple. Our lower target price is mainly due to changes in our cost estimates from previous.

## 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>898</b>	<b>958</b>
Property expenses	(227)	(220)	(233)	(239)	(256)
<b>Net property income</b>	<b>534</b>	<b>611</b>	<b>629</b>	<b>659</b>	<b>703</b>
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(113)	(119)
Manager's fees	(60)	(50)	(51)	(53)	(56)
Other items	(23)	(12)	5	(26)	(8)
<b>Net income</b>	<b>373</b>	<b>438</b>	<b>483</b>	<b>467</b>	<b>520</b>
FV change, derivatives & ppties	8	(30)	14	15	-
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>482</b>	<b>521</b>
Taxation	(25)	19	(3)	(7)	(7)
<b>Total Return After Tax</b>	<b>356</b>	<b>427</b>	<b>494</b>	<b>475</b>	<b>514</b>
Distribution adjustments	23	19	(26)	1	(11)
<b>Income available for distribution</b>	<b>378</b>	<b>446</b>	<b>468</b>	<b>477</b>	<b>503</b>

### Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV	206.0	206.0	212.0	213.6	213.9
EPU	14.21	14.83	16.40	15.73	16.50
DPU	15.36	15.74	15.99	15.72	16.12

\*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	482	521
Adjustments	94	151	84	142	130
WC changes	11	(24)	(18)	42	5
Cash generated from ops	486	536	564	666	655
Others	(4)	(7)	(25)	(7)	(7)
<b>Cashflow from ops</b>	<b>482</b>	<b>529</b>	<b>539</b>	<b>659</b>	<b>649</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>(983)</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)	(497)
Others	(96)	(116)	(120)	(75)	(129)
<b>Cashflow from financing</b>	<b>1,027</b>	<b>(426)</b>	<b>(308)</b>	<b>374</b>	<b>(626)</b>
<b>Net change in cash</b>	<b>16</b>	<b>(35)</b>	<b>(44)</b>	<b>51</b>	<b>21</b>
Beginning cash	42	56	22	(23)	28
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
<b>Ending cash</b>	<b>56</b>	<b>22</b>	<b>(23)</b>	<b>28</b>	<b>49</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	30	32
Cash	56	22	25	28	49
Others	36	14	24	24	24
<b>Total current assets</b>	<b>181</b>	<b>100</b>	<b>77</b>	<b>81</b>	<b>104</b>
<b>Total Assets</b>	<b>9,870</b>	<b>10,171</b>	<b>10,354</b>	<b>11,353</b>	<b>11,389</b>
<b>LIABILITIES</b>					
Borrowings	1,180	824	910	844	844
Trade payables	172	193	144	187	194
Others	44	105	50	50	50
<b>Total current liabilities</b>	<b>1,396</b>	<b>1,122</b>	<b>1,104</b>	<b>1,081</b>	<b>1,088</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>4,402</b>	<b>4,409</b>
<b>Net assets</b>	<b>5,785</b>	<b>6,335</b>	<b>6,499</b>	<b>6,951</b>	<b>6,979</b>
<b>Represented by:</b>					
Unitholders' funds	5,481	6,031	6,194	6,647	6,674
Perp. securities holders	304	304	304	304	304
Non-controlling interests	0.02	0.03	0.00	0.00	0.00

### Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	17.2	17.2	16.4	16.5	15.8
P/NAV (x)	1.2	1.2	1.3	1.2	1.2
P/DPU (x)	16.0	16.2	16.8	16.5	16.1
Distribution Yield (%)	6.3	6.2	6.0	6.0	6.2
NPI yield (%)	6.1	6.2	6.2	6.1	6.3

### Growth & Margins (%)

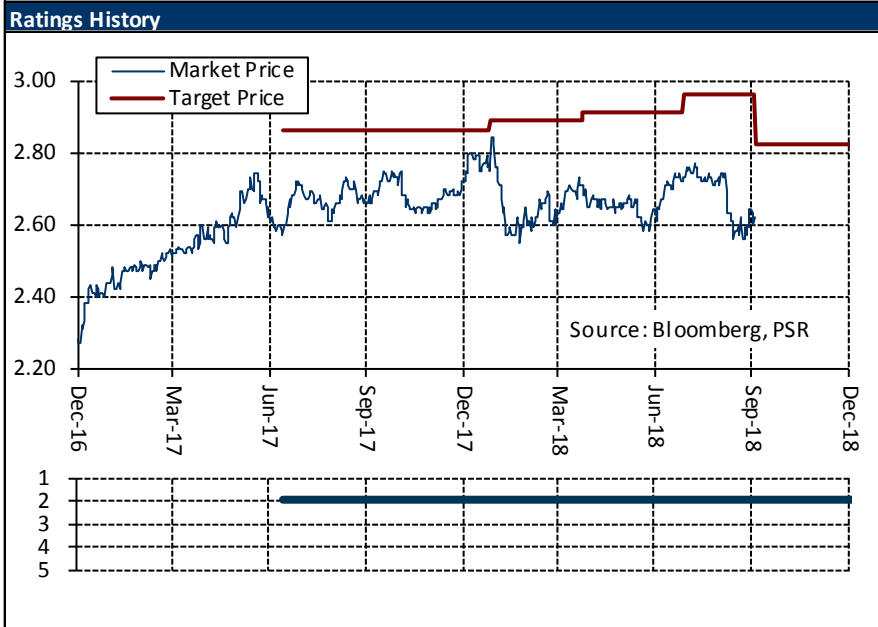
<b>Growth</b>					
Revenue	13.0%	9.1%	3.8%	4.2%	6.7%
Net property income (NPI)	15.3%	14.5%	3.0%	4.7%	6.7%
Distributable income	7.7%	18.0%	4.9%	1.8%	5.5%
DPU	5.2%	2.5%	1.6%	-1.7%	2.5%

### Margins

NPI margin	70.1%	73.6%	73.0%	73.3%	73.3%
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### Key Ratios

Net Debt or (Net Cash)	3,608	3,378	3,494	3,996	3,975
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

## Contact Information (Singapore Research Team)

## Head of Research

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

## Marketing &amp; Operations

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

## Banking and Finance

Tin Min Ying – [tinmy@phillip.com.sg](mailto:tinmy@phillip.com.sg)

## Oil &amp; Gas | Energy

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

## Telco | Technology

Alvin Chia - [alvinchiawy@phillip.com.sg](mailto:alvinchiawy@phillip.com.sg)

## Transport | REITs (Industrial)

Richard Leow - [richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)

## China/HK Equity

Zheng Jieyuan – [zhengjy@phillip.com.sg](mailto:zhengjy@phillip.com.sg)

## Technical Analysis

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

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

Tara Wong - [tarawongsj@phillip.com.sg](mailto:tarawongsj@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)

## 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)

## THAILAND

## Phillip Securities (Thailand) Public Co. Ltd

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

## 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)

## 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)

## 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)

## 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)

## 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)

## 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)

## AUSTRALIA

## Phillip Capital Limited

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## 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)

## 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)

## 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)

## 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)

## SRI LANKA

## Asha Phillip Securities Limited

No. 60, 5th Lane,  
Colombo 3, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

## DUBAI

## Phillip Futures DMCC

Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
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

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