

Ascendas REIT

Standing steady



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SINGAPORE | REAL ESTATE (REIT) | 3Q20 UPDATE

2 November 2020

- Portfolio reversion of -2.3% in 3Q20 but occupancy inched up from 91.5% to 91.9%. Low-single-digit positive reversions for FY20e still achievable owing to stronger leasing in 1H20, in line with our rental reversion forecasts.
- Weaker industrial outlook mitigated by scale and diversified tenant mix. No pre-terminations except for SG portfolio: nine tenants accounting for 1,800sqm of NLA.
- Upgrade to BUY with lower DDM TP of S\$3.61, down from S\$3.63, mainly due to higher debt and perpetual securities. Estimates tweaked for recent acquisition of MQX4. Recent pullback in share price presents better entry price, and total returns of 31.5% to our TP – upgrade to BUY.

Positives

+ One more in the bag. AREIT announced its acquisition of MQX4 on 18 September 2020. This is a suburban office under development in Macquarie Park, Sydney, bought at a "as if completed" market valuation of S\$161mn. The completed asset will have a net lettable area of 19,384 sqm, comprising 17,753 sqm of office space and 1,631 sqm of retail space. The acquisition will be funded with debt and/or internal resources and carries an initial NPI yield of 6.1%. A 3-year rental guarantee can provide upside if AREIT can lease out the property before the rental guarantee period ends. Completion of the land sale is expected in 4Q 2020, and of MQX4, around mid-2022. This is AREIT's third acquisition YTD, following its purchase of a 25% stake in Galaxis and a logistics asset under development in Kiara Crescent, Yennora, Sydney in March and July 2020 respectively.

+ Portfolio occupancy up from 91.5% to 91.9%. Singapore occupancy rose from 87.9% to 88.8%, supported by higher occupancy at Cintech II (30 Sep 2020: 100%, 30 Jun 2020: 0%) and a logistics asset, 40 Penjuru Lane (30 Sep 2020: 98.8%, 30 Jun 2020: 85.5%). This was partially offset by a decline in Australian occupancy from 98.4% to 97.5% due to a non-renewal at 92 Sandstone Place, Brisbane. Take-up was mainly driven by the government and logistics and supply-chain companies.

+ Gearing improved from 36.1% to 34.9%; cost of borrowing down from 2.9% to 2.8%. Gearing improved largely due to S\$300mn non-call green perpetuals issued at 3.0%, which are counted as equity in gearing calculations. Total gross borrowings and perpetual securities to unitholders' funds amounted to 63.3%. Adjusted interest coverage, which includes interest payment for the perpetuals, is estimated at 3.9x (2018: 4.2x). This is amply above the MAS' 2.5x minimum. Earnings are expected to be underpinned by its diversified rental income from industrial assets which have shown resilience to the economic downturn. Out-of-pocket rebates totalled just 2% of FY20e revenue.

Negative

- Portfolio rental reversion of -2.3%. Despite better occupancy, Singapore reversions were a negative 2.8%. Larger space signed with negative reversions wiped out AREIT's +11.5% reversions in the US. Aside from business parks' positive 4.5%, reversions for the other asset classes were flat or negative: Logistics and Distribution Centres (-16.2%), High-Specification (-3.3%), Light Industrial (-1.4%) and Integrated Development (flat). 9M20 portfolio reversions came in at +4.2%. We think low-single-digit positive reversions for FY20e are still achievable owing to stronger leasing locked in in 1H20.

Outlook

Subdued leasing is expected as companies continue to put business and expansion plans on hold out of caution. Singapore industrial rents were weak in 3Q20 while sector occupancy only crept up due to warehouse leasing.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 2.880
FORECAST DIV	SGD 0.177
TARGET PRICE	SGD 3.610
TOTAL RETURN	31.5%

COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	3,620
MARKET CAP (USD mn / SGD mn):	7629 / 10426
52 - WK HI/LO (SGD):	3.65 / 2.22
3M Average Daily T/O (mn):	11.56

MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	18.8%
BLACKROCK	6.0%
MONDRIAN INVESTMENT PARTNERS LTD	4.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(11.1)	(18.6)	(1.9)
STI RETURN	(1.6)	(3.1)	(21.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Gross Rev. (SGD mn)	886	699	1,052	1,112
NPI (SGD mn)	650	538	797	846
Dist. Inc. (SGD mn)	486	375	592	643
P/NAV (x)	1.35	1.33	1.35	1.36
DPU (cents)	16.04	11.49	17.69	17.73
Distribution Yield (%)	5.57	3.99	6.14	6.15

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.0%; Terminal g: 15%)

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Note: AREIT has changed to half-yearly reporting. No financial statements released for 3Q20.

Upgrade to BUY with lower TP of S\$3.61, from S\$3.63

We adjust our forecasts to reflect its acquisition of MQX4. Our TP dips to S\$3.61 due to higher debt and perpetual securities. Recent pullback in share price presents better entry price and total returns of 31.5% to our TP. As such we upgrade our call from Accumulate to BUY.

AREIT's S\$13.8bn portfolio comprises 197 properties across Singapore, Australia, the UK and the US. This results in low asset-concentration risks, with no property accounting for more than 4.6% of its revenue. Such geographical diversification and low tenant concentration - 1,450 tenants, the largest at <4% of revenue - help to attenuate the economic impact on its portfolio. Its portfolio weighted average security deposit is about 5.3 months of rental income.

WALE by country

Singapore: 3.5 years
Australia: 4.3 years
United Kingdom: 9.0 years
United States: 3.6 years

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	862	886	699	1,052	1,112
Property expenses	(233)	(237)	(161)	(255)	(265)
Net property income	629	650	538	797	846
Net Finance (Expense)/Inc.	(101)	(116)	(113)	(122)	(120)
Manager's fees	(51)	(54)	(43)	(64)	(65)
Other items	5	(14)	(12)	(7)	(12)
Net income	483	465	369	604	649
FV change, derivatives & pptides	14	52	44	(38)	-
Share of JV's results	0.51	0.49	0.41	0.52	0.53
Total Return Before Tax	497	517	409	567	612
Taxation	(3)	(14)	(21)	(18)	(19)
Total Return After Tax	494	503	388	548	593
Distribution adjustments	(26)	(17)	(12)	43	50
Income available for distribution	468	486	375	592	643

Per unit data

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV (cents)	212.0	213.0	216.0	213.5	211.3
DPU (cents)	15.99	16.04	11.49	17.69	17.73

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Total Return Before Tax	497	517	409	567	612
Adjustments	84	81	125	539	170
WC changes	(18)	20	97	(86)	8
Cash generated from ops	564	618	593	649	790
Others	(25)	(6)	(4)	(18)	(19)
Cashflow from ops	539	612	589	630	771
CFI					
Purchase of Inv. propty., net	(166)	(842)	(1,587)	(102)	-
Capex, net	(133)	(186)	(138)	(151)	(120)
Others	23	1	0	11	14
Cashflow from investments	(275)	(1,028)	(1,725)	(242)	(106)
CFF					
Share issuance, net	-	452	1,310	300	-
Loans, net of repayments	121	610	539	83	188
Distributions to unitholders	(309)	(477)	(516)	(608)	(641)
Interest expense and perpetual	(120)	(140)	(122)	(149)	(157)
Others	-	-	-	(38)	(38)
Cashflow from financing	(308)	444	1,210	(374)	(610)
Net change in cash	(44)	29	75	15	55
Effects of exchange rate	(0.7)	(1.2)	(0.6)	-	-
Ending cash	(23)	5	55	32	49

Source: Company, Phillip Securities Research (Singapore) Estimates

*FY19 comprises 3 quarters of results due to change in financial year from 31 March to 31 December

Note: Change in year end from 31 March to 31 December in FY19 resulted in 3 quarters of earnings for FY19

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	10,119	11,144	12,743	12,915	13,136
Inv. Propty. Under Devmnt.	95	92	182	268	166
Others	62	82	687	650	612
Total non-current assets	10,277	11,318	13,613	13,832	13,914
Trade receivables	28	40	36	55	58
Cash	25	52	96	73	90
Others	24	4	119	119	119
Total current assets	77	96	251	247	267
Total Assets	10,354	11,414	13,864	14,079	14,181
LIABILITIES					
Borrowings	910	612	577	384	872
Trade payables	144	158	256	188	199
Others	50	55	146	146	146
Total current liabilities	1,104	825	979	718	1,217
Borrowings	2,609	3,486	4,035	4,311	4,011
Others	142	157	739	702	664
Total non-current liabilities	2,752	3,643	4,774	5,012	4,675
Total Liabilities	3,855	4,468	5,753	5,731	5,892
Net assets	6,499	6,946	8,111	8,348	8,290
Represented by:					
Unitholders' funds	6,194	6,642	7,810	7,747	7,689
Perp. securities holders	304	304	301	601	601
Non-controlling interests	0	-	-	-	-

Valuation Ratios

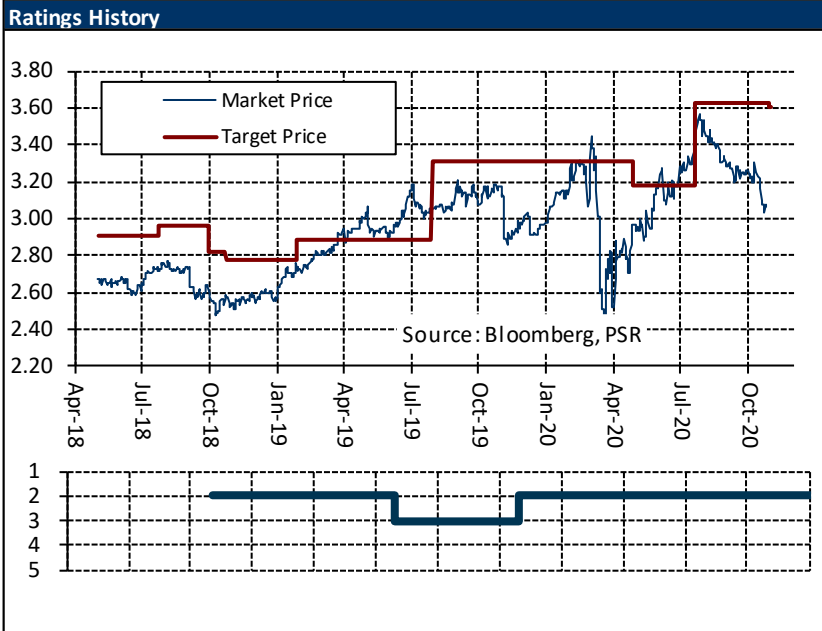
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.36	1.35	1.33	1.35	1.36
Distribution Yield (%)	5.6	5.6	4.0	6.1	6.2
NPI yield (%)	6.2	6.1	4.5	6.1	6.4

Growth & Margins (%)

Growth					
Revenue	3.8%	2.8%	-21.1%	50.5%	5.6%
Net property income (NPI)	3.0%	3.2%	-17.2%	48.2%	6.2%
Distributable income	4.9%	3.8%	-22.7%	57.6%	8.6%
DPU	1.6%	0.3%	-28.3%	54.0%	0.2%
Margins					
NPI margin	73.0%	73.3%	76.9%	75.7%	76.1%

Key Ratios

Gearing (%)	34.0%	35.9%	33.3%	33.3%	34.4%
Interest Coverage Ratio	5.2x	4.7x	3.9x	4.3x	4.5x
Adjusted ICR	4.6x	4.2x	3.5x	3.9x	3.9x
Net Debt or (Net Cash)	3,494	4,045	4,516	4,622	4,792



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

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