

Ascendas REIT

Rebalancing continues



SINGAPORE | REAL ESTATE (REIT) | UPDATE

21 June 2021

- Portfolio stable. Slight dip in occupancy from 91.7% to 90.6% due to non-renewals but reversions positive at 3.0%. Singapore assets improving.
- Demand remains muted as companies exercise caution but tenants also avoid relocation costs, leading to higher retention rates for AREIT. Electronics (29.3%) and Biomedical (34.0%) sectors main sources of demand in 1Q21.
- Reiterate BUY. DDM TP (COE 6%) raised from S\$3.64 to S\$3.65. We adjust FY21e/22e DPU by -0.5%/0.8% to reflect acquisition of remaining stake in Galaxis and divestment of three Australian logistics assets. Forecast FY21e DPU growth of 9.2% as acquisitions and redevelopment/AEI start contributing. AREIT remains our top pick in the sector for its scale and diversification.

1Q21 update

+ Positive

+ **Reversions at 3.0%**. US and Singapore reversions were 6.2% and 2.9% respectively. Singapore reversions were mixed, with positive reversions of 5.6%, 2.8% and 0.8% for logistics, business parks and light industrials respectively. Reversions for high-spec and integrated development assets were -0.9% and -2.7%.

- Negative

- **1Q21 portfolio occupancy slid QoQ from 91.7% to 90.6%**, under non-renewals in Australia and Singapore. Singapore occupancy fell QoQ from 88.4% to 86.9% on the back of a 14.9ppt decline at 138 Depot Road and 0% occupancy at TÜV SÜD PSB Building which will be redeveloped (4Q21: 100%). Australia's occupancy shed 2.5ppts to 94.9% following a non-renewal at 1 Distribution Place (1Q21 0%, 4Q21 100%). Occupancy is expected to improve as the manager has lined up tenants for the space.

Acquisition of remaining 75% stake in Galaxis from CapitaLand for S\$543.8mn

AREIT's acquisition of this stake comes 13 months after its initial 25% investment in Galaxis, acquired from MBK Real Estate Asia Pte Ltd. The agreed property value of S\$720mn on a 100% basis represents a 2% discount to the market value of Galaxis and a 14.3% appreciation since AREIT's initial investment (Figure 1). AREIT has raised S\$420mn from private placements and will issue an additional S\$83mn new units as partial payment to CapitaLand (CAPL SP, Buy, TP S\$4.38) for the remaining 75% stake. The issue will increase its share base by 4.2%.

Galaxis is currently held by a private limited company and is subject to a 17% corporate income tax. With full ownership of Galaxis, AREIT can apply for limited liability partnership conversion, allowing unitholders to enjoy tax transparency on the income from Galaxis. Expected DPU accretion on a pro-forma basis, assuming a 6-month conversion approval process, is 0.46%.

AREIT declared a DPS of 5.63 Singapore cents for the period 1 January 2021 to 13 May 2021, forming 35% of our FY21e DPU, broadly in line with our full year forecast.

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.920
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 3.650
TOTAL RETURN	30.5%

COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	4,023
MARKET CAP (USD mn / SGD mn):	9693 / 12963
52 - WK HI/LO (SGD):	3.65 / 2.22
3M Average Daily T/O (mn):	12.44

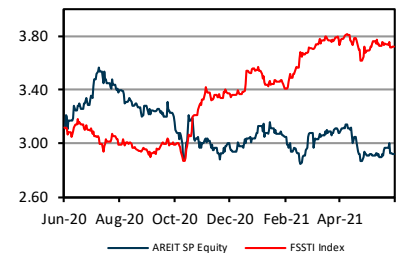
MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	18.0%
BLACKROCK	5.4%
MONDRIAN INVESTMENT PARTNERS LTD	3.9%
VANGUARD GROUP INC	3.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	(3.1)	0.4
STI RETURN	0.1	1.6	12.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY19	FY20	FY21e	FY22e
Gross Rev. (SGD mn)	699	1,049	1,206	1,281
NPI (SGD mn)	538	776	921	978
Dist. Inc. (SGD mn)	375	538	659	699
P/NAV (x)	1.35	1.32	1.30	1.31
DPU (cents)	11.49	14.69	16.05	16.63
Distribution Yield (%)	3.93	5.03	5.49	5.70

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.0%; Terminal g: 1.5%)

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Figure 1: Valuation of Galaxis

	31-Mar-20	4-May-21	Change
Acquisition of stake in Galaxis	25%	75%	
Agreed property value S\$mn (100%)	630	720	14.3%
Market value S\$mn (100%)	650	735	13.1%
Discount to valuation	3.1%	2.0%	
NPI Yield (Pre-transaction cost)	6.2%	5.4%	
NPI Yield (Post-transaction cost)	6.1%	5.3%	
Occupancy	99.6%	98.6%	

Source: Company, PSR

Divestment of three Australian logistics assets for 16.8% above book value

On 3 June 2021, AREIT announced its divestment of two Brisbane and one Melbourne logistics assets for S\$104.5mn and S\$24.2mn. The assets were 100% occupied as of 31 December 2020. The divestment will reduce its pro-forma NPI and DPU by S\$5.1mn and 0.075 Singapore cents respectively when completed in 3Q21.

Outlook

Demand remains muted as companies exercise caution but tenants are also avoiding relocation costs, leading to higher retention rates for AREIT. The Electronics and Biomedical industries accounted for 29.3% and 34.0% of new demand in 1Q21, helping to prop up demand for light-industrial/high-spec and business parks respectively. Singapore/Australia/US/UK will account for 13.9%/3.0%/4.0%/2.4% of FY21e lease expiries by GRI. The bulk of the Singapore expiries will be from tenants located in business parks (43%) and logistics assets (25%).

New acquisitions and completed developments are expected to support FY21e DPU growth of 9.2%. These include Grab's build-to-suit property scheduled for completion in 3Q21 and UBIX, which is being repositioned from a light-industrial to high-spec asset sometime in 4Q21.

Maintain BUY; DDM-based TP raised from S\$3.64 to S\$3.65

We adjust FY21e/22e DPU by -0.5%/0.8% to reflect its acquisition of the remaining stake in Galaxis and divestment of the three Australian logistics assets. Stock catalysts are expected from acquisitions and redevelopment. We forecast DPU growth of 9.2% for FY21e as acquisitions and redevelopment/AEI start contributing.

AREIT remains our top pick for the sector in view of its scale and diversification. The REIT also continues to future-proof its portfolio by increasing its exposure to growth sectors of the economy: knowledge economies, technology and e-commerce.

Financials
Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Gross revenue	886	699	1,049	1,206	1,281
Property expenses	(237)	(161)	(273)	(285)	(303)
Net property income	650	538	776	921	978
Net Finance (Expense)/Inc.	(116)	(113)	(159)	(151)	(163)
Manager's fees	(54)	(43)	(67)	(58)	(79)
Other items	(14)	(12)	6	3	(12)
Net income	465	369	556	715	725
FV change, derivatives & ppts	52	44	(71)	14	(5)
Share of JV's results	0.49	0.41	9.59	5.71	0.44
Total Return Before Tax	517	409	494	735	720
Taxation	(14)	(21)	(37)	(46)	(40)
Total Return After Tax	503	388	457	689	680
Distribution adjustments	(17)	(12)	81	(29)	19
Income available for distribution	486	375	538	659	699

Per unit data

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
NAV (cents)	213.0	216.0	221.0	224.5	223.7
DPU (cents)	16.04	11.49	14.69	16.05	16.63

Cash Flow

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Total Return Before Tax	517	409	494	735	720
Adjustments	81	87	221	128	183
WC changes	20	97	20	(78)	10
Cash generated from ops	618	593	736	785	913
Others	(6)	(4)	(6)	(8)	(7)
Cashflow from ops	612	589	729	777	906

CFI

Purchase of Inv. propty., net	(842)	(1,587)	(644)	(1,417)	-
Capex, net	(186)	(138)	(246)	(190)	(165)
Others	1	0	9	19	17
Cashflow from investments	(1,028)	(1,725)	(880)	(1,587)	(148)

CFF

Share issuance, net	452	1,310	1,196	503	-
Loans, net of repayments	610	539	84	1,016	119
Distributions to unitholders	(477)	(516)	(613)	(659)	(699)
Interest expense and perpetual pa	(140)	(122)	(157)	(147)	(163)
Others	-	-	-	(32)	(31)
Cashflow from financing	444	1,210	510	713	(743)
Net change in cash	29	75	359	(98)	15
Effects of exchange rate	(1.2)	(0.6)	0.8	-	-
Ending cash	5	55	277	147	132

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

Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Investment properties	11,144	12,743	13,708	15,614	15,899
Inv. Propty. Under Devmnt.	92	182	260	159	39
Others	82	687	803	664	638
Total non-current assets	11,318	13,613	14,770	16,436	16,575
Trade receivables	40	36	67	63	67
Cash	52	96	278	148	133
Others	4	119	8	8	8
Total current assets	96	251	353	219	207
Total Assets	11,414	13,864	15,123	16,655	16,782
LIABILITIES					
Borrowings	612	577	421	618	830
Trade payables	158	256	298	215	229
Others	55	146	125	125	125
Total current liabilities	825	979	843	958	1,183
Borrowings	3,486	4,035	4,261	5,129	5,036
Others	157	739	828	839	847
Total non-current liabilities	3,643	4,774	5,090	5,969	5,883
Total Liabilities	4,468	5,753	5,933	6,926	7,066
Net assets	6,946	8,111	9,191	9,729	9,716
Represented by:					
Unitholders' funds	6,642	7,810	8,892	9,430	9,417
Perp. securities holders	304	301	299	299	299
Non-controlling interests	-	-	-	-	-

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	1.37	1.35	1.32	1.30	1.31
Distribution Yield (%)	5.5	3.9	5.0	5.5	5.7
NPI yield (%)	6.1	4.5	5.8	6.2	6.2

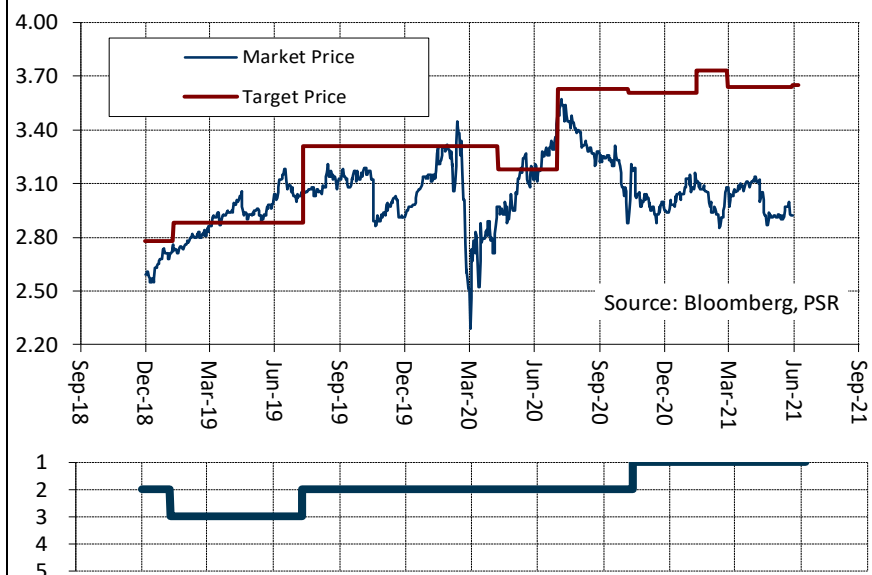
Growth & Margins (%)

	FY18	FY19	FY20	FY21e	FY22e
Growth					
Revenue	2.8%	-21.1%	50.1%	14.9%	6.2%
Net property income (NPI)	3.2%	-17.2%	44.4%	18.7%	6.2%
Distributable income	3.8%	-22.7%	43.4%	22.5%	6.0%
DPU	1.6%	-28.3%	27.8%	9.2%	3.7%
Margins					
NPI margin	73.3%	76.9%	74.0%	76.4%	76.4%

Key Ratios

Gearing (%)	35.9%	33.3%	31.0%	34.5%	35.0%
Interest Coverage Ratio	4.7x	3.9x	4.3x	5.1x	4.8x
Adjusted ICR	4.2x	3.5x	3.9x	4.8x	4.6x
Net Debt or (Net Cash)	4,045	4,516	4,404	5,598	5,733

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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