

# Ascendas REIT

Positioned to benefit from upswing



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## SINGAPORE | REAL ESTATE (REIT) | FY18 RESULTS

- Gross revenue and DPU in line with our forecast
- 7.880 cents DPU for 2H FY17/18 vs. 7.845 cents in 2H FY16/17 (+0.45% YoY)
- Portfolio remains stable in terms of valuation, occupancy and aggregate leverage
- Maintain Accumulate; higher target price of \$2.91 (previously \$2.89)

### Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Gross revenue	862	831	3.8%	Acquisition of 12, 14 & 16 Science Park Drive (Feb 2017), 197-201 Coward Street (Sep 2016) and 100 Wickham Street (Sep 2017) and 108 Wickham Street (Dec 2017)
Net property income	629	611	3.0%	6.0% higher property operating expenses
Distributable income	468	446	4.9%	
DPU (cents)	15.99	15.74	1.6%	5.0% larger weighted average unit base

Source: Company, PSR

+ **Portfolio value remains stable with slight tightening of capitalisation rate.** Same store valuation of 126 properties was stable at S\$9.84b vs. S\$9.75bn a year ago. (Total AUM of S\$10.35bn.) Portfolio capitalisation rate compressed slightly from 6.29% to 6.24%. This was driven by tightening of the weighted average capitalisation rate of the Singapore portfolio by 5bps, and tightening of the Australia portfolio by 10bps.

+ **Occupancy remained stable with net positive rental reversions.** Total portfolio occupancy was higher QoQ from 91.1% to 91.5%. Both Singapore and Australia portfolio exhibited the same stability in occupancy. Total portfolio achieved +0.7% rental reversion for FY17/18, but -6.8% reversion for 4Q FY17/18.

+ **Healthy balance sheet at 34.4% aggregate leverage.** Aggregate leverage is marginally lower QoQ from 35.2%. Ample debt headroom of ~S\$1bn (to 40% leverage), potentially growing the AUM by ~10%. Average debt maturity has improved from 2.8 years to 3.2 years. Debt maturity profile is staggered, with a policy of no more than 20% of total debt maturing in any given year.

### Outlook

The outlook is stable. The portfolio is sufficiently diversified to cushion any short-term localised impact. The manager guided for a soft leasing market this year, but possibility of positive rental reversions coming from Business Park and Hi-Specs properties. Overhang of supply will continue to put pressure on logistics assets.

The manager also shared on its acquisition/growth strategy. Singapore will remain the key market for the portfolio, with overseas assets making up 30%-40%. Apart from looking for opportunities in the existing overseas market of Australia (specifically the eastern seaboard), the manager is actively looking at other new markets. The manager favours Europe and US as they have similar risk profiles to where the REIT already has exposure to. Entry into new markets will be on a platform basis, with key criteria of being scalable and having long-term benefit to the REIT.

### Maintain Accumulate; higher target price of \$2.91 (previously \$2.89)

Our forecast remains largely unchanged. We expect a stable ~6% yield and our target price gives an implied 1.37 times FY18/19e forward P/NAV multiple.

24 April 2018

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.710
FORECAST DIV	SGD 0.161
TARGET PRICE	SGD 2.910
TOTAL RETURN	13.3%

### COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	2,929
MARKET CAP (USD mn / SGD mn):	5998 / 7936
52 - WK HI/LO (SGD):	2.86 / 2.52
3M Average Daily T/O (mn):	10.16

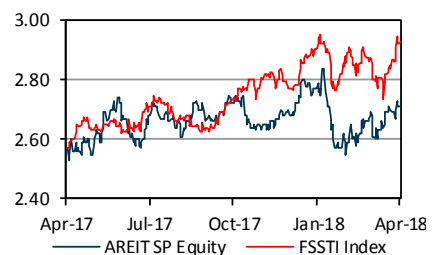
### MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	20.0%
BLACKROCK	7.0%
MONDRIAN INVESTMENT PARTNERS LTD	7.0%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	11	(2.2)	9.9
STI RETURN	19	10	17.5

### 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	881	895
NPI (SGD mn)	611	629	643	653
Dist. Inc. (SGD mn)	446	468	473	483
P/E (x)	17.2	16.4	16.6	16.3
P/NAV (x)	12	13	13	13
DPU (cents)	15.74	15.99	16.11	16.42
Distribution Yield (%)	6.2	6.0	5.9	6.1

Source: Company, PSR

### VALUATION METHOD

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

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### 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	7,936	2.71	1.31	5.9
Mapletree Industrial Trust	3,808	2.02	1.43	5.8
Mapletree Logistics Trust	3,792	1.24	1.19	6.1
Frasers Logistics & Industrial Trust	1,612	1.06	1.15	6.6
AIMS AMP Capital Industrial REIT	964	1.41	1.04	5.4
Cache Logistics Trust	883	0.825	1.15	8.0
Viva Industrial Trust	876	0.900	1.18	8.1
ESR-REIT	855	0.540	0.79	7.1
Soilbuild Business Space REIT	689	0.655	1.03	8.5
Sabana Shari'ah Compliant REIT	448	0.425	0.78	7.8
<b>Average</b>			<b>1.11</b>	<b>6.9</b>

Source: Bloomberg (Updated: 23 April 2018), PSR

### Investment highlights

#### Figure 1: Acquired three, redeveloped two and divested three properties during the year

	Country	Purchase Consideration / Cost (S\$m)	Completion Date
<b>Total (Acquisition/Redevelopment/AEI)</b>		<b>278.7</b>	
<b>Acquisitions</b>		<b>225.8</b>	
100 Wickham Street, Fortitude Valley, Brisbane	Australia	90.3 <sup>(1)</sup>	25 Sep 2017
108 Wickham Street, Fortitude Valley, Brisbane	Australia	109.0 <sup>(2)</sup>	22 Dec 2017
52 Fox Drive, Dandenong South, Melbourne	Australia	26.5 <sup>(3)</sup>	3 Apr 2017
<b>Redevelopment &amp; Asset Enhancement Initiative</b>		<b>52.9</b>	
50 Kallang Avenue	Singapore	45.2	21 Jun 2017
The Gemini	Singapore	7.7	17 Aug 2017
	<b>Country</b>	<b>Sale Price (S\$m)</b>	<b>Completion Date</b>
<b>Total (Divestments)</b>		<b>60.8</b>	
84 Genting Lane	Singapore	16.7	19 Jan 2018
13 International Business Park	Singapore	24.8	24 Aug 2017
10 Woodlands Link	Singapore	19.3	12 Jul 2017

Source: Company FY18 Financial Results Presentation, 23 April 2018

#### Figure 2: Proposed acquisitions, redevelopment and divestment for the year ahead

	Country	Purchase Consideration Cost/ Sale Price (S\$m)	(Estimated) Completion Date
<b>FY18/19</b>			
<b>Proposed Acquisitions</b>		<b>65.3</b>	
169-177 Australis Drive, Derrimut, Melbourne (NEW)	Australia	34.5 <sup>(1)</sup>	1Q FY18/19
1-7 Wayne Goss Drive, Berrinba, Brisbane	Australia	30.8 <sup>(2)</sup>	3Q FY18/19
<b>Redevelopment</b>		<b>61.4</b>	
20 Tuas Avenue 1	Singapore	61.4	1Q FY18/19
<b>Proposed Divestment</b>		<b>24.0</b>	
30 Old Toh Tuck Road	Singapore	24.0	1Q FY18/19

Source: Company FY18 Financial Results Presentation, 23 April 2018

## 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>881</b>	<b>895</b>
Property expenses	(227)	(220)	(233)	(238)	(242)
<b>Net property income</b>	<b>534</b>	<b>611</b>	<b>629</b>	<b>643</b>	<b>653</b>
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(104)	(104)
Manager's fees	(60)	(50)	(51)	(49)	(49)
Other items	(23)	(12)	5	(7)	(7)
<b>Net income</b>	<b>373</b>	<b>438</b>	<b>483</b>	<b>481</b>	<b>492</b>
FV change, derivatives & pptides	8	(30)	14	-	-
Share of JV's results	0.04	0.48	0.51	-	-
<b>Total Return Before Tax</b>	<b>381</b>	<b>408</b>	<b>497</b>	<b>481</b>	<b>492</b>
Taxation	(25)	19	(3)	(4)	(4)
<b>Total Return After Tax</b>	<b>356</b>	<b>427</b>	<b>494</b>	<b>477</b>	<b>488</b>
Distribution adjustments	23	19	(26)	(4)	(4)
<b>Income available for distribution</b>	<b>378</b>	<b>446</b>	<b>468</b>	<b>473</b>	<b>483</b>

### Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV	206.0	206.0	212.0	211.4	211.0
EPU	14.21	14.83	16.40	16.28	16.60
DPU	15.36	15.74	15.99	16.11	16.42

\*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	481	492
Adjustments	94	151	84	162	114
WC changes	11	(24)	(18)	39	(3)
Cash generated from ops	486	536	564	683	603
Others	(4)	(7)	(25)	(4)	(4)
<b>Cashflow from ops</b>	<b>482</b>	<b>529</b>	<b>539</b>	<b>678</b>	<b>599</b>
<b>CFI</b>					
CAPEX, net	(158)	(103)	(133)	(12)	(12)
Purchase of Inv. Propty., net	(1,339)	(89)	(166)	-	-
Others	4	54	23	10	10
<b>Cashflow from investments</b>	<b>(1,492)</b>	<b>(138)</b>	<b>(275)</b>	<b>(2)</b>	<b>(2)</b>
<b>CFF</b>					
Share issuance, net	645	155	-	-	-
Loans, net of repayments	920	50	121	-	-
Distributions	(442)	(515)	(309)	(480)	(492)
Others	(96)	(116)	(120)	(114)	(114)
<b>Cashflow from financing</b>	<b>1,027</b>	<b>(426)</b>	<b>(308)</b>	<b>(594)</b>	<b>(607)</b>
<b>Net change in cash</b>	<b>16</b>	<b>(35)</b>	<b>(44)</b>	<b>82</b>	<b>(10)</b>
Beginning cash	42	56	22	(23)	59
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
<b>Ending cash</b>	<b>56</b>	<b>22</b>	<b>(23)</b>	<b>59</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	10,131	10,143
Inv. Propty. Under Devmnt.	-	125	95	95	95
Associates/JVs	0.04	0.13	0.12	0.12	0.12
PPE	0.07	-	-	-	-
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>10,289</b>	<b>10,301</b>
Trade receivables	89	63	28	29	29
Cash	56	22	25	59	49
Others	36	14	24	24	24
<b>Total current assets</b>	<b>181</b>	<b>100</b>	<b>77</b>	<b>111</b>	<b>102</b>
<b>Total Assets</b>	<b>9,870</b>	<b>10,171</b>	<b>10,354</b>	<b>10,400</b>	<b>10,403</b>
<b>LIABILITIES</b>					
Borrowings	1,180	824	910	910	910
Trade payables	172	193	144	183	181
Others	44	105	50	50	50
<b>Total current liabilities</b>	<b>1,396</b>	<b>1,122</b>	<b>1,104</b>	<b>1,143</b>	<b>1,141</b>
Borrowings	2,484	2,576	2,609	2,609	2,609
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>2,752</b>	<b>2,752</b>
<b>Total Liabilities</b>	<b>4,085</b>	<b>3,836</b>	<b>3,856</b>	<b>3,895</b>	<b>3,892</b>
<b>Net assets</b>	<b>5,785</b>	<b>6,335</b>	<b>6,499</b>	<b>6,505</b>	<b>6,510</b>
<b>Represented by:</b>					
Unitholders' funds	5,481	6,031	6,194	6,201	6,206
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	16.6	16.3
P/NAV (x)	1.2	1.2	1.3	1.3	1.3
P/DPU (x)	16.0	16.2	16.8	16.8	16.5
Distribution Yield (%)	6.3	6.2	6.0	5.9	6.1
NPI yield (%)	6.1	6.2	6.2	6.3	6.4

### Growth & Margins (%)

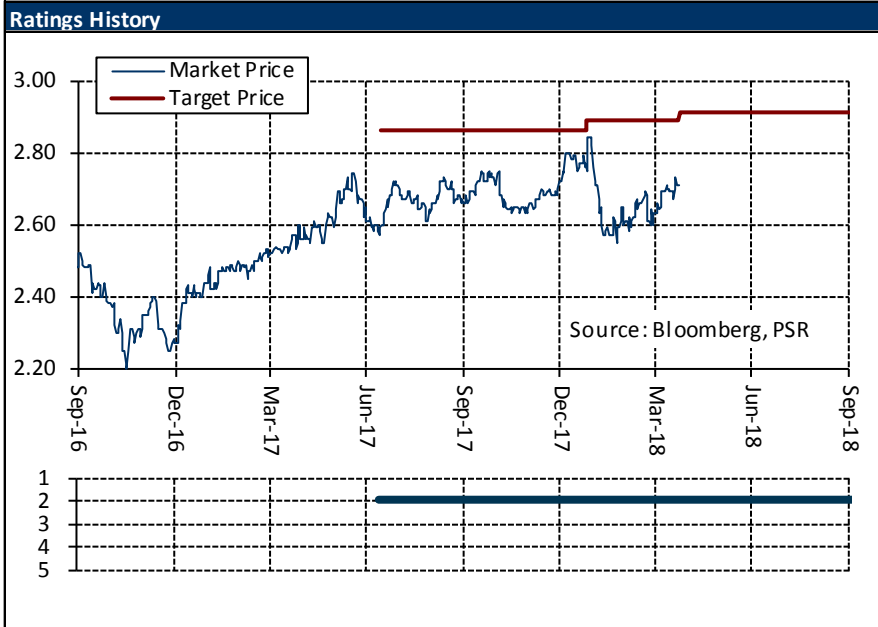
<b>Growth</b>					
Revenue	13.0%	9.1%	3.8%	2.2%	1.6%
Net property income (NPI)	15.3%	14.5%	3.0%	2.1%	1.6%
Distributable income	7.7%	18.0%	4.9%	1.0%	2.2%
DPU	5.2%	2.5%	1.6%	0.7%	1.9%

### Margins

NPI margin	70.1%	73.6%	73.0%	72.9%	73.0%
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### Key Ratios

Net Debt or (Net Cash)	3,608	3,378	3,494	3,460	3,470
Gearing (%)	37.1%	33.4%	34.0%	33.8%	33.8%



### 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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