

Ascendas REIT

Maiden entry into UK

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Maiden entry into UK through a portfolio of 12 logistics properties
- Acquisition cost of £207.27 mn (S\$373.15 mn) expected to be fully funded by GBP-denominated debt
- Maintain Accumulate; new target price of \$2.96 (previously \$2.91)

What is the news?

Ascendas Reit is expanding its footprint beyond Asia and Australia, through the proposed acquisition of a portfolio of 12 logistics properties in the UK. The properties will be acquired from two third-party vendors for £207.27 million (S\$373.15 million). Completion is expected to take place in 3Q 2018. DPU accretion is expected to be about 0.194 cents, assuming acquisition is fully-funded by debt.

How do we view this?

The Positives

- + **Income visibility from UK portfolio with long WALE of 14.6 years.** This extends A-Reit's overall WALE from 4.2 years to 4.4 years (as at 31 March 2018). The first lease expiry in the UK portfolio is three years' time, in FY21/22. The quality of the tenants in the portfolio also mitigates credit risk.
- + **Geographical and income diversification of overall portfolio with limited country risk.** Geographical diversification into the UK will increase investment in overseas markets from 15% to 17% by asset value, and overseas revenue from 13% to 15%. There will also be more quality tenants in diversified industries. The UK has a similar risk profile to Singapore and Australia; and the depth of the UK market provides scalability.
- + **Strengthening of overall portfolio by increasing exposure to freehold properties.** 10 of the 12 properties are freehold, and the remaining two are virtual freehold (999 years leasehold). This increases A-Reit's exposure to freehold properties to 19% from 16% by asset value. In view of the freehold nature of the properties, we think that the lower NPI yield of ~5.2% for the UK portfolio, compared to the existing A-Reit yield of ~6.2% is reasonable.

The Negatives

- **A property (Unit 3, Brookfields, Rotherham) is currently vacant.** The tenant had vacated the space, but there is a 2-year rental top-up in place which will be deducted upfront from the purchase consideration.
- **Gearing increases to 36.1% from 34.4%.** With the acquisition expected to be fully-funded by debt, we estimate new debt headroom of S\$700 mn, from existing S\$1.0 bn. However, the GBP-denominated debt act as a natural hedge to the GBP assets. The cost of GBP-denominated debt will be between 2.6% and 2.8% for a five-year tenor – lower than existing all-in debt cost of 2.9% as at 31 March.

Maintain Accumulate; new target price of \$2.96 (previously \$2.91)

We have adjusted our forecast to include the acquisition. Our FY19e/FY20e gross revenue is 1.5%/2.3% higher than previous, and DPU is 1.8%/2.1% higher than previous. We expect a stable ~6% yield and our target price gives an implied 1.39 times FY19e forward P/NAV multiple.

Note: Ascendas Reit will be releasing 1Q FY18/19 financial results on July 30 after market hours.



StocksBnB.com

30 July 2018

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.730
FORECAST DIV	SGD 0.164
TARGET PRICE	SGD 2.960
TOTAL RETURN	14.4%

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

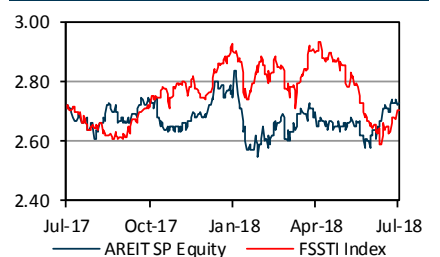
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
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	894	915
NPI (SGD mn)	611	629	652	668
Dist. Inc. (SGD mn)	446	468	481	493
P/E (x)	17.2	16.4	16.5	16.1
P/NAV (x)	12	13	13	13
DPU (cents)	15.74	15.99	16.40	16.76
Distribution Yield (%)	6.2	6.0	6.0	6.1

Source: Company, PSR

VALUATION METHOD

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

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Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	761	831	862	894	915
Property expenses	(227)	(220)	(233)	(242)	(247)
Net property income	534	611	629	652	668
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(111)	(116)
Manager's fees	(60)	(50)	(51)	(49)	(49)
Other items	(23)	(12)	5	(8)	(8)
Net income	373	438	483	484	495
FV change, derivatives & ppties	8	(30)	14	-	-
Share of JV's results	0.04	0.48	0.51	0.52	0.52
Total Return Before Tax	381	408	497	484	496
Taxation	(25)	19	(3)	(6)	(6)
Total Return After Tax	356	427	494	478	489
Distribution adjustments	23	19	(26)	(4)	(4)
Income available for distribution	378	446	468	473	485

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	16.30	16.65
DPU	15.36	15.74	15.99	16.13	16.48

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total return	381	408	497	484	496
Adjustments	94	151	84	121	125
WC changes	11	(24)	(18)	41	(2)
Cash generated from ops	486	536	564	647	619
Others	(4)	(7)	(25)	(6)	(6)
Cashflow from ops	482	529	539	640	613
CFI					
CAPEX, net	(158)	(103)	(133)	(12)	(12)
Purchase of Inv. Propty., net	(1,339)	(89)	(166)	(375)	-
Others	4	54	23	10	10
Cashflow from investments	(1,492)	(138)	(275)	(377)	(2)
CFF					
Share issuance, net	645	155	-	-	-
Loans, net of repayments	920	50	121	375	-
Distributions	(442)	(515)	(309)	(480)	(494)
Others	(96)	(116)	(120)	(73)	(125)
Cashflow from financing	1,027	(426)	(308)	(178)	(620)
Net change in cash	16	(35)	(44)	85	(9)
Beginning cash	42	56	22	(23)	62
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
Ending cash	56	22	(23)	62	53

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
ASSETS					
Investment properties	9,599	9,874	10,119	10,506	10,518
Inv. Propty. Under Devmnt.	-	125	95	95	95
Others	90	72	62	62	62
Total non-current assets	9,689	10,071	10,277	10,664	10,676
Trade receivables	89	63	28	29	30
Cash	56	22	25	62	53
Others	36	14	24	24	24
Total current assets	181	100	77	115	107
Total Assets	9,870	10,171	10,354	10,779	10,783
LIABILITIES					
Borrowings	1,180	824	910	910	910
Trade payables	172	193	144	186	185
Others	44	105	50	50	50
Total current liabilities	1,396	1,122	1,104	1,146	1,145
Borrowings	2,484	2,576	2,609	2,984	2,984
Others	205	138	142	142	142
Total non-current liabilities	2,689	2,714	2,752	3,127	3,127
Total Liabilities	4,085	3,836	3,856	4,272	4,271
Net assets	5,785	6,335	6,499	6,506	6,511
Represented by:					
Unitholders' funds	5,481	6,031	6,194	6,202	6,207
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	16.7	16.3
P/NAV (x)	1.2	1.2	1.3	1.3	1.3
P/DPU (x)	16.0	16.2	16.8	16.9	16.5
Distribution Yield (%)	6.3	6.2	6.0	5.9	6.1
NPI yield (%)	6.1	6.2	6.2	6.3	6.3

Growth & Margins (%)

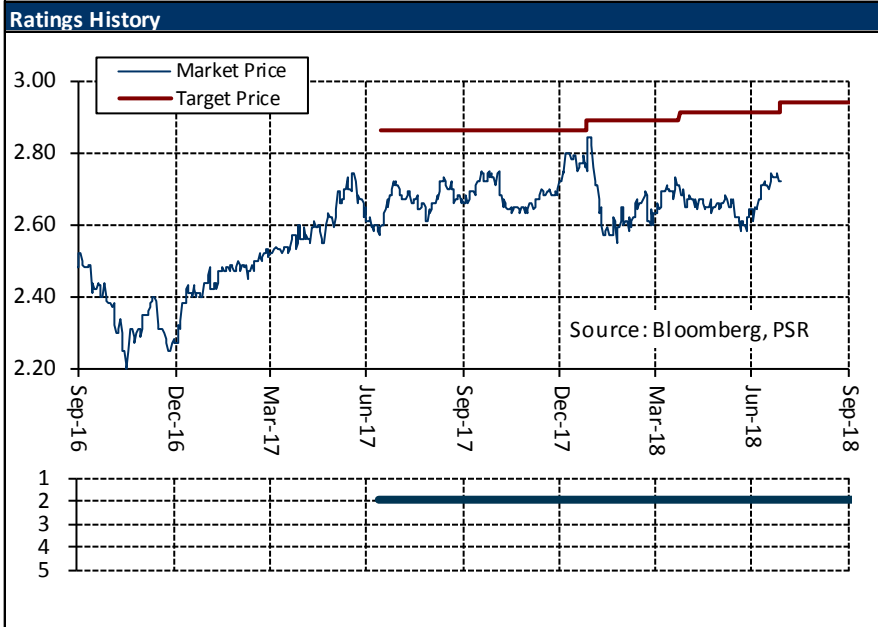
Growth					
Revenue	13.0%	9.1%	3.8%	3.7%	2.4%
Net property income (NPI)	15.3%	14.5%	3.0%	3.6%	2.4%
Distributable income	7.7%	18.0%	4.9%	1.1%	2.4%
DPU	5.2%	2.5%	1.6%	0.9%	2.2%

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	3,832	3,841
Gearing (%)	37.1%	33.4%	34.0%	36.1%	36.1%



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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