

Ascendas REIT (AREIT SP)

Another Steady Quarter

BUY

Share Price SGD 2.75
 12m Price Target SGD 3.05 (+11%)
 Previous Price Target SGD 3.00

Adjusting for recent deals, revised TP SGD3.05

3Q18 DPU at S3.97cts is in line with consensus and our estimate. While portfolio occupancy was softer QoQ, its Singapore assets achieved +5.8% rental reversions, led by its strongest growth segments (business and science parks, hi-specs industrial and integrated development). We factored in its two recent transactions (108 Wickham Street and 84 Genting Lane), which lifted our DPU estimates by 1-2%, and our DDM-based TP to SGD3.05 (WACC: 7.1%, LTG: 1.5%). With a new CEO in place, we see a likely pick-up in momentum on its acquisition-led growth. BUY.

Results in line, portfolio saw +3.1% rental reversion

AREIT saw in-line 3Q18 DPU of S3.97cts as NPI rose 1.7% YoY on 4.1% YoY revenue growth. NPI would have increased by 4.7% YoY, as 3Q17 had included a one-off property tax refund. The performance was driven by newly-acquired Singapore and Australian properties, and 50 Kallang Ave, recently-redeveloped. Portfolio occupancy fell QoQ to 91.1%, with higher vacancies in Singapore at 40 Penjuru Lane, Techpoint and The Alpha. But Singapore saw a +5.8% rental reversion for its business & science parks (+6.6%), hi-specs industrial (+5.8%), and integrated development, amenities & retail (+15.3%). These supported portfolio rental reversion of +3.1%.

Balance-sheet strength supports further deals

Aggregate leverage rose QoQ from 33.1% to 35.2%, with all-in-borrowing costs stable at 2.9%, hedged borrowing ratio at 70.5% (from 79.3% at end-Sep 2017), and weighted average debt maturity at 2.8 years. AREIT has an estimated SGD0.8b debt headroom (at 40% leverage) to support further acquisitions. A SGD31.8m acquisition (No. 1-7 Wayne Goss Drive) in Queensland was announced. It includes land and development, a vendor rental guarantee, and achieves 6.7% initial NPI yield, post-completion in 3Q19.

DPUs raised 1-2%, new CEO named

We fine-tuned estimates to include its SGD109m 108 Wickham Street acquisition (completed on 22 Dec) and 84 Genting Lane divestment (19 Jan), which yielded SGD16.7m. Our DPUs are raised by 1-2%. AREIT also announced the appointment of William Tay as its new CEO starting 1 Feb. He joins from the sponsor, where he was deputy CEO of Singapore and SEA, and following a career start at JTC.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	761	831	906	935	955
Net property income	534	611	692	717	740
Core net profit	370	420	488	507	527
Core EPU (cts)	14.0	15.3	16.8	17.4	18.1
Core EPU growth (%)	(15.3)	9.5	9.8	3.5	3.7
DPU (cts)	15.4	15.7	16.7	17.3	17.9
DPU growth (%)	5.5	2.2	5.9	3.6	3.8
P/NTA (x)	1.3	1.3	1.2	1.1	1.1
DPU yield (%)	5.6	5.7	6.1	6.3	6.5
ROAE (%)	6.4	7.0	7.5	7.2	7.1
ROAA (%)	4.1	4.2	4.6	4.5	4.5
Debt/Assets (x)	0.37	0.33	0.34	0.32	0.31
Consensus DPU	-	-	16.0	16.5	17.0
MKE vs. Consensus (%)	-	-	4.2	4.8	5.5

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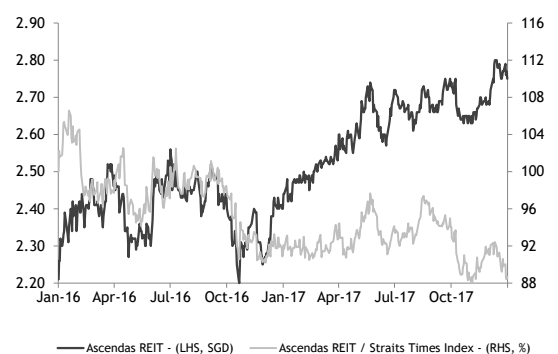
Statistics

52w high/low (SGD)	2.80/2.42
3m avg turnover (USDm)	16.4
Free float (%)	79.7
Issued shares (m)	2,925
Market capitalisation	SGD8.0B USD6.2B

Major shareholders:

Temasek	17.7%
Mondrian Investment	7.8%
BlackRock	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	1	15
Relative to index (%)	(4)	(7)	(3)

Source: FactSet

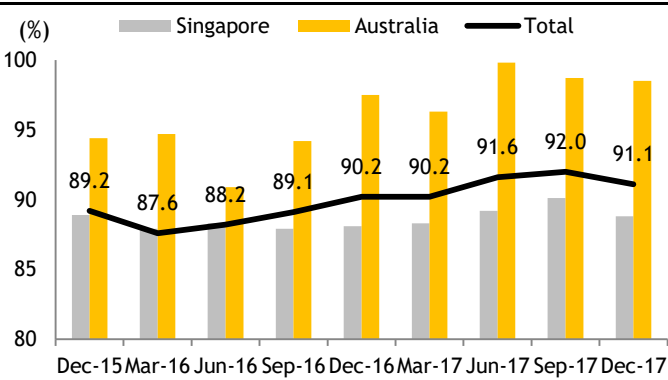
Fig 1: Summary financials 3Q18A comparison

FYE 31 Mar	3Q17 (SGD m)	2Q18 (SGD m)	3Q18 (SGD m)	Change (% YoY)	Change (% QoQ)	YTD18 (SGD m)	% of FYE	FY18E (SGD m)
Gross revenue	208.6	215.8	217.3	4.1	0.7	646.4	72.0	897.4
Property expenses	(53.7)	(55.3)	(59.7)	11.2	7.9	(174.8)	82.0	(213.2)
Net property income	155.0	160.5	157.6	1.7	(1.8)	471.5	68.9	684.1
Borrowing costs	(26.7)	(27.2)	(27.6)	3.0	1.2	(81.6)	69.4	(117.5)
Distributable income to unitholders	115.1	118.8	116.3	1.0	(2.1)	353.5	73.5	481.3
Distribution per unit (SGD cts)	4.0	4.1	4.0	(0.6)	(2.2)	12.1	73.5	16.4
NAV per unit (SGD)	2.08	2.13	2.07					
Aggregate leverage (%)^	31.8	33.1	35.2	340	210			
All-in financing cost (%)^	3.0	2.9	2.9	(10)	0			
Occupancy (%)^	90.2	92.0	91.1	90	(90)			
Rental reversion (%)^	3.0	3.1	3.1	10	0			
NPI margin (%)^	74.3	74.4	72.5	(177)	(187)			

^Change in basis points

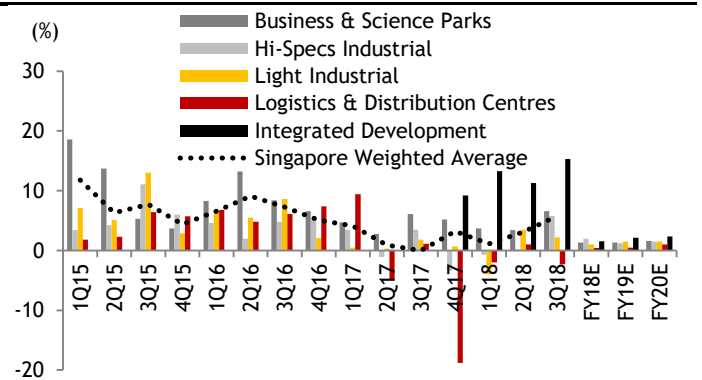
Source: Company data, Maybank Kim Eng

Fig 2: Occupancies dipped slightly in S'pore and Australia



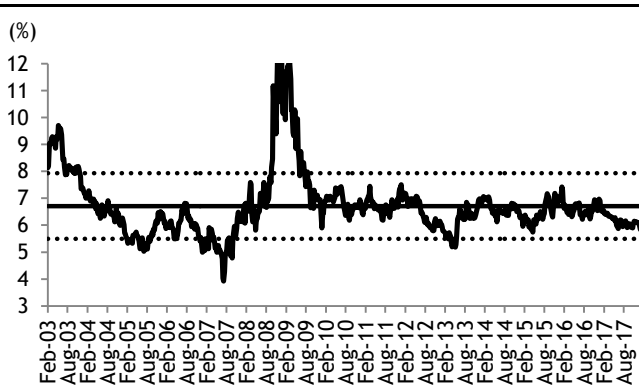
Source: Company data

Fig 3: Rental reversion was +3.1%, with S'pore at +5.8%



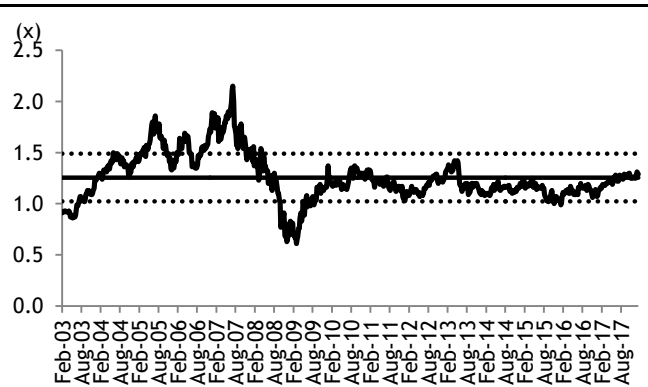
Source: Company data

Fig 4: Div yield



Source: Bloomberg

Fig 5: P/BV



Source: Bloomberg

Fig 6: Slight forecast changes

	FY18E (old)	FY19E (old)	FY18E	FY19E	FY18E (% change)	FY19E (% change)
Revenue (SGDm)	897.4	927.4	906.4	935.0	1.0	0.8
NPI (SGDm)	684.1	710.4	692.1	717.4	1.2	1.0
DPU (SGD)	16.4	17.1	16.7	17.3	1.5	1.2

Source: Maybank Kim Eng

Fig 7: S-REIT valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												16	17E	18E	19E	
Retail							14.0	29.6			1.05	5.6	5.5	5.7	5.7	31
CapitaLand Mall (CMT)	Hold	2.10	2.20	4.8	5.5	10.2	7.4	22.9	63	1.95	1.07	5.3	5.3	5.5	5.4	35
Frasers Ctr Trust (FCT)	Buy	2.36	2.55	8.1	5.5	13.6	2.2	2.3	58	2.02	1.17	5.0	5.0	5.5	5.7	30
Starhill Global REIT	Sell	0.78	0.70	(9.7)	6.5	(3.2)	1.7	2.3	63	0.92	0.84	6.7	6.4	6.5	6.5	35
SPH REIT	Hold	1.04	1.00	(3.8)	5.4	1.5	2.7	2.1	25	0.94	1.10	5.3	5.3	5.4	5.4	26
Retail & Office							10.5	19.5			1.11	4.9	5.0	5.0	5.0	36
Suntec REIT	Hold	2.14	1.89	(11.7)	4.7	(7.0)	5.7	12.6	78	2.13	1.01	4.7	4.7	4.7	4.7	36
Mapletree Comm. (MCT)	Sell	1.68	1.45	(13.7)	5.4	(8.3)	4.8	6.9	66	1.37	1.22	5.1	5.3	5.4	5.4	36
Office							13.6	30.3			0.95	5.8	5.5	5.6	5.6	37
CapitaLand Comm. (CCT)	Hold	1.90	1.80	(5.3)	4.7	(0.5)	6.9	22.0	73	1.78	1.07	4.6	4.6	4.7	4.8	37
Keppel REIT	Hold	1.29	1.19	(7.8)	4.8	(2.9)	4.3	5.9	56	1.41	0.91	4.9	4.4	4.8	5.0	39
Frasers Comm. (FCOT)	NR	1.50					1.2	2.2	73	1.58	0.95	6.5	6.6	6.4	6.5	36
OUE Comm. (OUECT)	NR	0.75					1.2	0.2	17	0.85	0.87	7.0	6.3	6.3	6.1	36
Industrial							22.4	45.8			1.16	7.1	6.7	6.8	6.9	36
Ascendas REIT	Buy	2.75	3.05	10.9	6.3	17.2	7.9	22.0	80	2.12	1.29	5.8	6.1	6.3	6.5	34
Mapletree Ind. (MIT)	Buy	2.11	2.20	4.3	6.3	10.5	4.0	6.9	68	1.42	1.49	5.4	5.6	6.3	6.4	30
Mapletree Log. (MLT)	Hold	1.35	1.25	(7.4)	5.9	(1.5)	4.1	8.3	64	1.05	1.29	5.4	5.7	5.9	6.1	39
Cache Logistics Trust	Hold	0.86	0.90	4.7	7.1	11.7	0.9	1.5	100	0.72	1.20	8.6	7.7	7.1	7.3	36
Viva Industrial Trust	Buy	0.94	1.00	6.4	7.2	13.6	0.9	1.1	43	0.79	1.19	7.4	7.2	7.2	7.4	39
AIMS AMP	Buy	1.38	1.60	15.9	8.2	24.1	0.9	0.9	81	1.37	1.01	8.0	8.2	8.2	8.2	36
Keppel DC REIT	NR	1.46					1.6	2.6	65	0.97	1.51	4.2	4.9	5.3	5.5	28
ESR REIT	NR	0.57					0.7	0.7	69	0.71	0.80	7.4	6.9	7.6	7.6	38
Soilbuild BS REIT	NR	0.70					0.7	1.4	65	0.64	1.10	8.7	8.2	7.1	7.0	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.5	78	0.57	0.73	10.0	n.a.	n.a.	n.a.	37
Hospitality & Residential							10.4	9.8			1.04	6.0	5.7	6.0	6.0	35
Ascott Residence Trust	NR	1.26					2.7	2.7	59	1.24	1.02	6.3	5.5	5.7	5.8	32
CDL HT (CDLHT)	NR	1.82					2.2	2.9	63	1.47	1.23	5.3	5.0	5.4	5.7	39
OUE HT (OUEHT)	NR	0.89					1.6	1.6	52	0.76	1.16	5.2	5.7	5.8	6.1	38
Far East HT (FEHT)	NR	0.75					1.4	1.1	41	0.89	0.84	5.8	5.3	5.7	5.8	33
Frasers HT	NR	0.81					1.5	0.8	39	0.79	1.03	6.9	6.2	6.4	6.4	34
Ascendas HT	NR	0.88					1.0	0.7	65	0.89	0.99	6.3	6.6	6.9	n.a.	33
Offshore REITs							14.9	18.0			1.04	6.9	6.5	6.4	6.3	33
Mapletree Greater China	NR	1.27					3.6	4.4	66	1.25	1.02	5.8	5.8	5.9	6.0	39
CapitaLand Retail China	NR	1.67					1.6	2.1	63	1.63	1.02	6.0	6.1	6.5	6.9	35
Fortune REIT (HKD)	NR	9.90					3.2	0.5	72	14.05	0.70	5.0	5.1	5.3	5.4	28
Lippo Malls Ind. RT	NR	0.42					1.2	2.1	64	0.35	1.17	8.2	8.4	8.2	n.a.	31
Manulife REIT (USD)	NR	0.96					1.3	2.9	95	0.84	1.14	6.0	5.5	6.2	6.2	30
Keppel_KBS US REIT	NR	0.92					0.8	n.a.	47	0.84	1.09	n.a.	n.a.	6.5	6.9	36
IREIT Global	NR	0.81					0.5	0.4	33	0.67	1.20	11.8	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.80					0.4	0.0	34	0.83	0.97	6.8	n.a.	n.a.	n.a.	32
Frasers Log. & Ind. (FLT)	NR	1.16					1.8	5.3	74	0.94	1.24	5.3	6.7	6.3	6.5	29
EC World REIT	NR	0.78					0.6	0.2	51	0.93	0.83	n.a.	7.7	n.a.	n.a.	29
Healthcare							2.9	3.0			1.56	5.1	5.3	5.2	5.3	34
Parkway Life REIT	NR	2.97					1.8	1.7	54	1.72	1.73	4.1	4.5	4.2	4.3	37
First REIT	NR	1.41					1.1	1.2	67	1.01	1.39	6.0	6.1	6.2	6.3	31
Total REITs							89	156			1.10	6.3	6.0	6.1	6.1	35
S-REIT yield spread																
FSTREI Index																3.0
SGS 10Y bond yield																5.2
																2.1

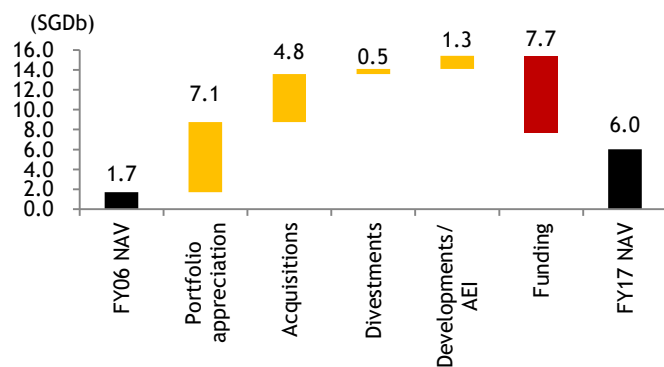
Prices as of 25 Jan 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- Largest listed S-REIT, and first and largest listed within the industrial sub-sector, backed by sponsors Ascendas-Singbridge and JTC, Singapore’s principal developer and manager of industrial estates.
- Offers prominent exposure to business parks and hi-spec buildings (59% of portfolio), which are geared towards the government’s push for higher value-add businesses.
- Greater clarity on acquisitive-growth trajectory, with Australian assets driving earnings visibility and Science Park Drive properties entrenching business park footprint.
- Proactive portfolio reconstitution efforts (divestment of final China asset and ECS conversion) have strengthened balance sheet. We expect management will endeavour to recycle capital into higher-yielding and newer assets.

NAV growth (FY06-17)

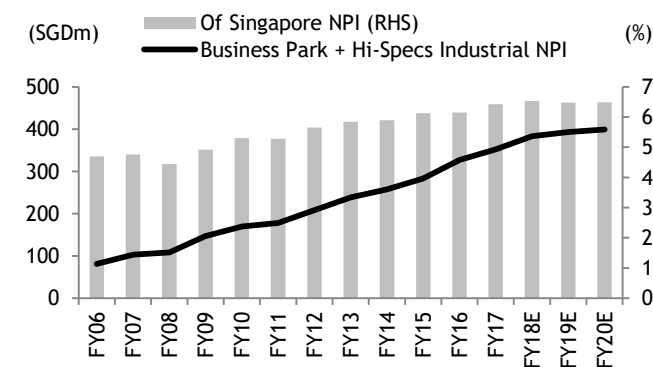


Source: Company

Financial Metrics

- DPUs for FY18-20 to be resilient given favourable business parks and hi-specs industrial exposure, and rising contribution from recently completed acquisitions.
- NPI contribution from AREIT’s business parks and hi-specs properties should outpace growth in its broader asset portfolio, from 63.7% of its Singapore NPI in FY17 to 64.7% by FY20E.

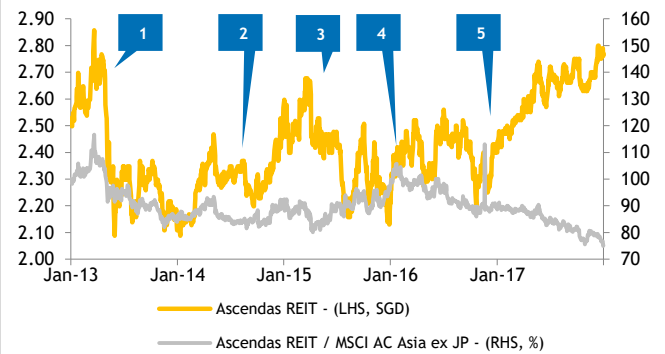
NPI growth profile



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. May-13: Market anticipates occupancy declines due to single-to-multi tenant conversions. 2Q13 sees the start of a strong supply cycle that is set to end in 2017.
2. Aug-14: Acquired the Aperia (rare, centrally-located integrated industrial site with retail space) for SGD458m (8.3% of market cap).
3. Feb-15: Temasek and JTC jointly announce the merger of their four subsidiaries including Ascendas and Singbridge to create a 51:49 JV valued at SGD5b.
4. Dec-15: Raised SGD408m in new equity (at 6.3% discount to 10day VWAP) to finance acquisition of One@Changi City and Australian logistics asset.
5. Dec-16: Fed announces second 25bp rate hike, with yield sensitive assets under pressure.

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions.

Downside

- Prolonged slowdown in economic activity could reduce demand for industrial space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	17.9	17.5	16.5	15.9	15.3
P/BV (x)	1.3	1.3	1.2	1.1	1.1
P/NTA (x)	1.3	1.3	1.2	1.1	1.1
DPU yield (%)	5.6	5.7	6.1	6.3	6.5
FCF yield (%)	7.1	6.9	7.6	7.9	8.1

INCOME STATEMENT (SGD m)

Revenue	761.0	830.6	906.4	935.0	954.8
Net property income	533.7	610.9	692.1	717.4	740.1
Management and trustee fees	(67.4)	(60.7)	(64.9)	(67.2)	(69.2)
Net financing costs	(93.6)	(117.7)	(117.5)	(121.4)	(121.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(19.5)	(30.9)	0.0	0.0	0.0
Other pretax income/expenses	16.2	6.8	6.8	6.8	6.8
Pretax profit	369.3	408.5	516.5	535.7	556.4
Income tax	(25.1)	19.0	(23.2)	(24.1)	(25.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	344.1	427.5	493.3	511.6	531.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	378.3	446.3	488.4	507.0	527.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	56.2	22.0	49.2	49.2	49.2
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.1	0.0	0.0	0.0	0.0
Investment properties	9,598.7	9,874.2	10,706.4	11,101.3	11,455.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.1	0.0	0.0	0.0
Other assets	221.0	274.5	274.5	274.5	274.5
Total assets	9,876.0	10,170.8	11,030.1	11,425.0	11,778.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	172.0	192.7	192.7	192.7	192.7
LT interest bearing debt	3,664.6	3,400.1	3,700.1	3,700.1	3,700.1
Other liabilities	242.6	242.9	242.9	242.9	242.9
Total Liabilities	4,079.1	3,835.7	4,135.7	4,135.7	4,135.7
Shareholders Equity	5,796.9	6,335.1	6,894.4	7,289.3	7,643.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	5,796.9	6,335.1	6,894.4	7,289.3	7,643.0
Total liabilities and equity	9,876.0	10,170.8	11,030.1	11,425.0	11,778.7

CASH FLOW (SGD m)

Cash flow from operations	481.7	528.8	613.3	635.8	655.8
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(1,496.1)	(157.8)	(272.8)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	4.0	20.1	6.8	6.8	6.8
CF from investing activities	(1,492.1)	(137.6)	(266.0)	6.8	6.8
Dividends paid	(442.1)	(500.9)	(488.4)	(507.0)	(527.0)
Interest expense	(87.2)	(111.5)	(117.5)	(121.4)	(121.4)
Change in debt	916.1	48.6	300.0	0.0	0.0
Equity raised / (purchased)	640.2	137.7	(14.3)	(14.3)	(14.3)
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	1,027.0	(426.1)	(320.1)	(642.6)	(662.6)
Effect of exchange rate changes	(1.9)	0.3	0.0	0.0	0.0
Net cash flow	14.7	(34.7)	27.2	0.0	0.0

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	13.0	9.1	9.1	3.2	2.1
Net property income growth	15.3	14.5	13.3	3.7	3.2
Core net profit growth	5.5	13.5	16.2	3.8	3.9
Distributable income growth	7.7	18.0	9.4	3.8	3.9
Profitability ratios (%)					
Net property income margin	70.1	73.6	76.4	76.7	77.5
Core net profit margin	48.7	50.6	53.9	54.2	55.2
Payout ratio	109.9	102.6	99.0	99.1	99.2
DuPont analysis					
Total return margin (%)	45.2	51.5	54.4	54.7	55.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.5
ROAE (%)	6.4	7.0	7.5	7.2	7.1
ROAA (%)	4.1	4.2	4.6	4.5	4.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.7	2.7	2.8	2.8
Net gearing (%) (excl. perps)	62.2	53.3	53.0	50.1	47.8
Net interest cover (x)	5.0	4.7	5.3	5.4	5.5
Debt/EBITDA (x)	7.9	6.2	5.9	5.7	5.5
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	3,608.3	3,378.1	3,650.9	3,650.9	3,650.9
Debt/Assets (x)	0.37	0.33	0.34	0.32	0.31

Source: Company; Maybank

Research Offices

REGIONAL

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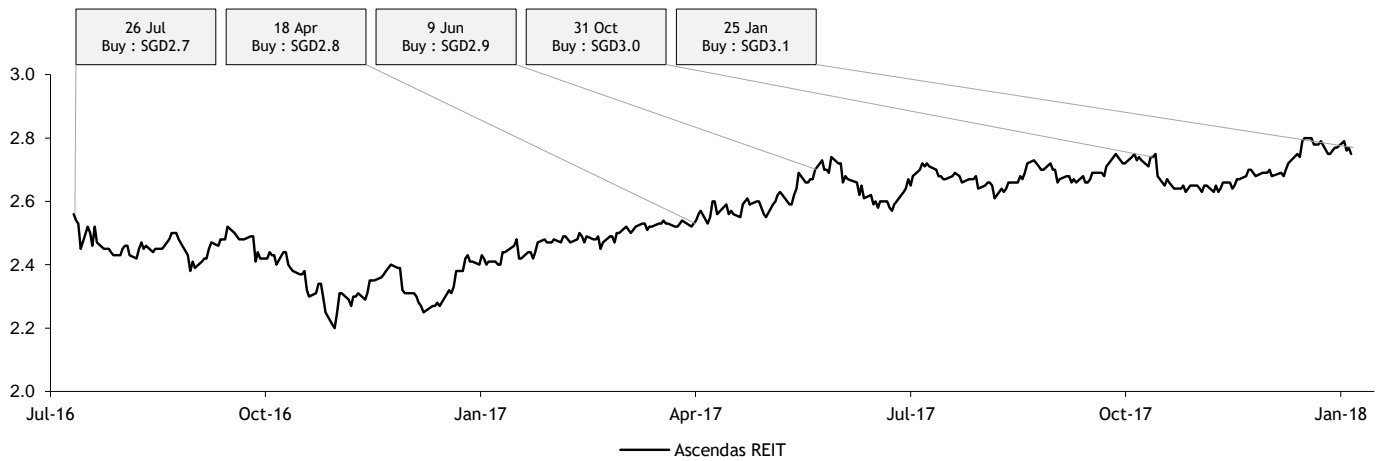
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