

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Apr 2020

Ascendas REIT (AREIT SP) : **BUY**

Mkt. Cap: US\$7,302m | **3m Avg. Daily Val:** US\$48.6m

Last Traded Price (28 Apr 2020): S\$2.86

Price Target 12-mth: S\$3.45 (21% upside)

Analyst

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Strength in diversity

- Portfolio occupancy improved 0.8% q-o-q to 91.7%
- AREIT reported positive rental reversion of 8.0% for its portfolio
- Minimal provisions for F&B and retail tenant rebates; income retention not necessary at this juncture
- Maintain BUY with a TP of S\$3.45

Forecasts and Valuation

FY Dec (\$m)	2018A	2019A*	2020F	2021F
Gross Revenue	886	699	1,083	1,101
Net Property Inc	650	538	811	825
Total Return	489	377	556	566
Distribution Inc	486	375	584	595
EPU (S cts)	15.2	9.78	15.3	15.6
EPU Gth (%)	(6)	(36)	57	2
DPU (S cts)	16.1	11.5	16.1	16.4
DPU Gth (%)	0	(28)	40	2
NAV per shr (S cts)	213	216	215	214
PE (X)	18.8	29.2	18.6	18.3
Distribution Yield (%)	5.6	4.0	5.6	5.7
P/NAV (x)	1.3	1.3	1.3	1.3
Aggregate Leverage (%)	36.5	38.6	39.3	39.5
ROAE (%)	7.2	4.6	7.1	7.3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

* 9M19 given change in year end to Dec from March

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Healthy capital management metrics

- Gearing inched up from 35.1% to 36.2% q-o-q mainly due to the acquisition of a 25% stake in Galaxis for S\$102.9m
 - AELs at The Capricorn and Plaza 8 amounting to S\$14.5m were completed in 1Q20
 - Divestment of 3 properties were completed in the quarter - Wisma Gulab, 202 Kallang Bahru and 25 Changi South Street 1
- Galaxis was acquired at NPI yield of 6.1%
 - Currently 99.6% occupied
 - Will not be considering acquiring the remaining 75% stake in the near future amid the COVID-19 pandemic
- With the increased gearing limits of 50%, AREIT currently has debt headroom of c.S\$3.8bn
- Interest coverage ratio and weighted average debt tenure remains robust at 5.0x and 3.8 years respectively
- S\$568m of borrowings will be due in FY20; S\$1.3bn of unutilised credit facilities available

Improved occupancy and positive rental reversions

- Portfolio occupancy increased 0.8% q-o-q to 91.7%
 - Mainly due to higher occupancy for Singapore portfolio - higher occupancies at 40 Penjuru Lane and LogisHub@Clementi
 - Australia, UK and US reported marginal dips in occupancy in 1Q20
- Portfolio rental reversions of 8.0% in 1Q20



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- Positive rental reversions in Singapore, Australia and the US
- In Singapore, highest positive reversions were from high-specification industrial/data centres (12.2%) and integrated developments (15.6%)
- In Australia, suburban offices reported 15.7% positive reversion
- Rental reversions in 1Q20 pertained to leases that were renewed 3-6 months ago
 - With uncertainties caused by COVID-19, rental reversions for the rest of FY20 are expected to remain flat
- Development of business park for Grab delayed by one quarter to 1Q21
 - Other redevelopments to be completed in FY21 and FY22 are on track
 - S\$1.2m AEI at Aperia is on track for completion in 3Q20
- Expect tenant retention and renewal for expiring rents to remain strong; expansion plans for tenants in the technology sector across geographies are intact
- Property tax rebates will be fully passed on to tenants
- Only 4% of tenants have enquired about rental rebates and deferment (they account for less than 1% of revenue)
- AREIT will provide more help for F&B and retail tenants by matching the rebates that the government has announced
- Provisions of approximately S\$2m has been made in 1Q20 mainly for F&B and retail tenants
 - May look at a further S\$2m in rent rebates for the months of April and May
- Request for rental deferments in other markets remain low
 - One request from a tenant in Australia from the travel sector
 - Eight requests in the UK
 - 16 requests in the US but their rentals only total c. \$20,000 each month

Our thoughts

We maintain our **BUY** call with a TP of **S\$3.45** given AREIT's robust operational performance. Its diversification strategy of investing in business park assets in the US is paying-off and the technology sector is proving to be resilient despite uncertainty in the other markets. We also take comfort in management's confidence of maintaining operating metrics going forward, and ample debt headroom will provide ammunition for further growth.

Looking ahead

- No intention to retain income presently as portfolio still remains healthy, unless conditions deteriorate significantly in the next quarter
- Approximately 20% of tenants in Singapore have enquired about rental rebates and reliefs, mainly related to property tax rebates announced by the government

Capital management metrics

	1Q20	4Q19	% q-o-q	1Q19	% y-o-y
Aggregate leverage	36.2%	35.1%	1.1%	36.3%	-0.1%
Interest Coverage Ratio	5.0	4.9	0.1	5.2	-0.2
Weighted Average Debt Tenure	3.8	4.0	-0.2	4.0	-0.2
All-in financing cost	2.9%	2.9%	0.0%	3.0%	-0.1%

Key operational data

	1Q20	4Q19	%q-o-q	1Q19	% y-o-y
Quarterly rental reversion (%)	8.0%	8.8%	-0.8%	6.6%	1.4%
- Singapore	7.7%	8.8%	-1.1%	6.6%	1.1%
- Australia	13.7%	-	-	-	-
- US	7.4%	-	-	-	-
Portfolio Occupancy (%)	91.7%	90.9%	0.8%	91.9%	-0.2%
- Singapore	88.6%	87.2%	1.4%	88.3%	0.3%
- Australia	97.3%	97.4%	-0.1%	98.0%	-0.7%
- UK	97.5%	97.7%	-0.2%	100.0%	-2.5%
- US	92.9%	93.9%	-1.0%	-	-

Source: Company, DBS Bank

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Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Dale LAI

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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**Share price appreciation + dividends*

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