

Singapore Company Update

Ascendas REIT

Bloomberg: AREIT SP | Reuters: AEMN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Sep 2020

BUY

Last Traded Price (23 Sep 2020): S\$3.26 (STI : 2,481.14)
Price Target 12-mth: S\$4.00 (23% upside)

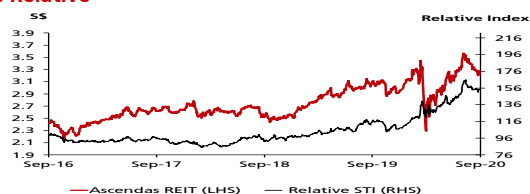
Analyst

Derek TAN +65 6682 3716 derektan@db.com
Dale LAI +65 66823715 dalelai@db.com

What's New

- Acceleration in DPU growth to drive share price rally
- Acquisition momentum reactivated, more to come as the REIT looks to diversify its earnings base
- Redevelopment of science park an interesting prospect that is overlooked by the market
- Attractive yield compared to peers; BUY!

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2019A	2020F	2021F	2022F
Gross Revenue	699	1,072	1,094	1,110
Net Property Inc	538	775	846	860
Total Return	377	523	586	591
Distribution Inc	375	543	606	611
EPU (S cts)	9.78	14.5	15.9	15.8
EPU Gth (%)	(36)	48	10	(1)
DPU (S cts)	11.5	15.0	16.2	16.4
DPU Gth (%)	(28)	31	8	1
NAV per shr (S cts)	216	215	216	215
PE (X)	33.3	22.6	20.5	20.6
Distribution Yield (%)	3.5	4.6	5.0	5.0
P/NAV (x)	1.5	1.5	1.5	1.5
Aggregate Leverage (%)	38.6	39.3	39.5	39.6
ROAE (%)	4.6	6.7	7.4	7.3

Distn. Inc Chng (%)		0	0	0
Consensus DPU (S cts)		15.2	16.3	16.8
Other Broker Recs:		B: 15	S: 0	H: 5

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

Shifting to higher gear

Investment Thesis

Attractive valuations relative to other large-cap peers. Cheaper than its large-cap industrial peers at a 5.0% forward yield and 1.6x P/NAV, we believe that A-REIT is poised to “catch-up” given similar growth profile of a DPU CAGR of 4.5% over FY21-23F.

Multiple structural tailwinds in place. We believe that investors have neglected A-REIT’s myriad of structural tailwinds from e-commerce and office decentralisation which we believe will drive earnings and capital values higher in the longer term.

Quality pipeline to future-proof its earnings profile. With an attractive pipeline of business park properties from the Sponsor, the ability to execute on these acquisitions will have a direct correlation with share price performance.

Valuation:

Our DCF-based TP is maintained at S\$4.00 as we assume (i) WACC of 5.8% (from 6.1%); and (ii) acquisitions of S\$500m of which 30% has been met.

Where we differ:

Redevelopment upside. We believe that investors have not priced in the possibility of redevelopment of its science parks to newer specifications and higher plot ratio properties, locking NAV upside.

Key Risks to Our View:

Interest-rate risk. An increase in lending rates will negatively impact dividend distributions.

At A Glance

Issued Capital (m shrs)	3,620
Mkt. Cap (S\$m/US\$m)	11,802 / 8,600
Major Shareholders (%)	
Ascendas Pte Ltd	19.1
Blackrock	6.0
Free Float (%)	74.9
3m Avg. Daily Val (US\$m)	29.8
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

WHAT'S NEW

Restarting the acquisition growth

Underperformance in share price is unwarranted. Ascendas REIT's (A-REIT) share price is up 8% year to date but is noted to have underperformed its industrial large-cap S-REIT peers by 15%. We believe this is unwarranted given its similar growth profile of 3-12% compared to peers, coupled with an attractive acquisition pipeline that will continue to propel its earnings growth going forward.

What are investors missing? The stock is trading at an implied cap rate of c.4.6%, which positions A-REIT in a virtuous growth cycle where it can acquire accretively. This ability to deliver upside in earnings is not appreciated by the market at current prices.

We believe that investors are also not pricing in the potential upside from the redevelopment and repositioning of its older science park properties (c.20% of its asset value), which brings about accretion in net asset values (NAVs) and income when executed upon.

Restarting its growth engines. We believe the COVID-19 pandemic has opened up opportunities for A-REIT to continue to grow its footprint, and diversifying its exposures and resilience against future economic downturns. The manager has delivered on its strategy to deepen its presence in overseas markets - UK and Australia.

Proposed acquisition of a "green" suburban office building in Macquarie Park, on track to meet our estimates. A-REIT continues to deepen its presence in Australia through the proposed acquisition of a suburban office property ("MQX4") under development located in 1 Giffnock Avenue, Macquarie Park Sydney for A\$167.2m (S\$161.0m). MQX4 is located within the heart of Macquarie Park Innovation District and is within 100m to the metro station. The developer of the property is a joint venture between Frasers Property Industrial and Winten Property Group. The property will offer 19,384 sqm of NLA (17,752 sqm of offices and 1,631sqm of retail space) over nine storeys (ground floor retail and eight storeys of office space). The property is targeted to achieve 6 Star Green Star Design and 5.5 Star NABERS Energy rating, and is expected to complete in mid-2022.

Cash consideration and returns in line with market transactions. Total cash consideration is estimated to be A\$166.0m after accounting for coupon received (5.75% on progressive payment over construction period).

The first year NPI yield is estimated to be 6.1%, which is derived based on the rental guarantee provided by the developers on the vacant space.

We view the acquisition positively as it fits A-REIT's strategy of gaining a foothold within the suburban office space in Australia, whose property attributes are similar to the Business Parks in Singapore. Rents within Macquarie Park provide an attractive alternative to CBD space and are 60% cheaper than Sydney CBD. The park is also home to many multinational companies in the pharmaceutical, technology and electronics industry. While the targeted yield of 6.1% is higher than the recently announced acquisition by K-REIT within the same park (5.25% yield for Pinnacle Office Park), the difference could be due to leasing risks that A-REIT will have to undertake upon completion of both its office and retail spaces. On a psm basis, both deals are transacted at fairly close numbers with A-REIT's being a notch lower.

Acquisitions a key share price driver to watch. In our analysis of the various factors driving share price, we found a close correlation between share price and DPU growth, which shows that investors are willing to accord a tighter yield for the stock. A-REIT has continued to deliver and there is a possibility of beating our estimates. We believe that the sponsor's pipeline of business parks in Singapore is an attractive prospect, given the long tenures and growing tenant base. We estimate an acquisition value of up to S\$1.0bn that may be available for injection in the medium term.

Offering an FY21F yield of 5.0%, A-REIT is trading at the industrial S-REIT sector's mean of 4.8%, which we believe to be attractive. Growth in DPU is projected to be c.8.3% in FY21, driven by a mix of rebase in income (ex rental rebates) coupled with contributions from assumed acquisitions.

On an absolute DPU basis, A-REIT and its peers are projected to deliver DPUs that are 1.5-4.5% higher than pre-COVID levels, which implies that their premiums to NAVs can be maintained over time.

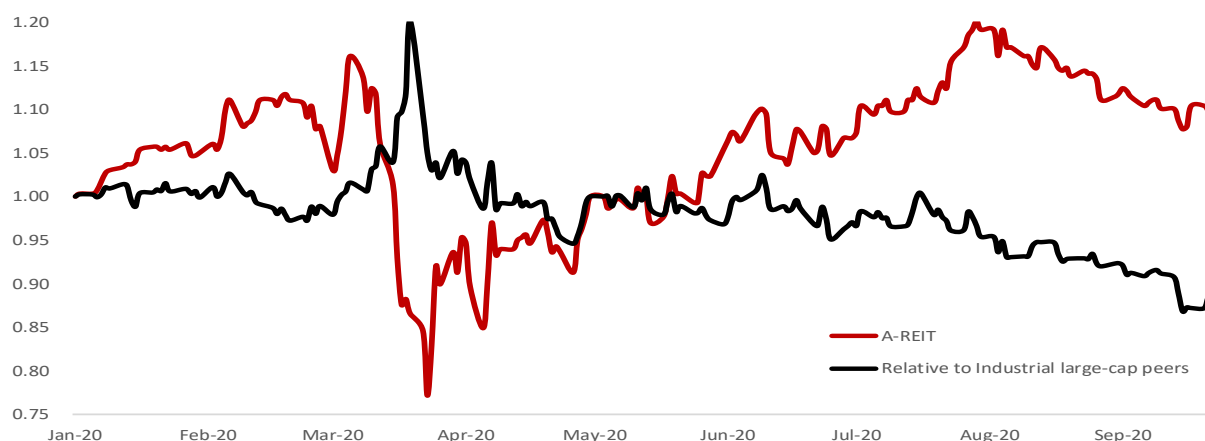
Company Background

A-REIT is Singapore's first and largest listed business space and industrial real estate investment trust. It has a diversified portfolio comprising assets in Singapore, UK, Australia and recently the US. A-REIT is managed by Ascendas Funds Management (S) Limited, a wholly owned subsidiary of the Singapore-based Ascendas-Singbridge.

Ascendas REIT

Relative share price performance

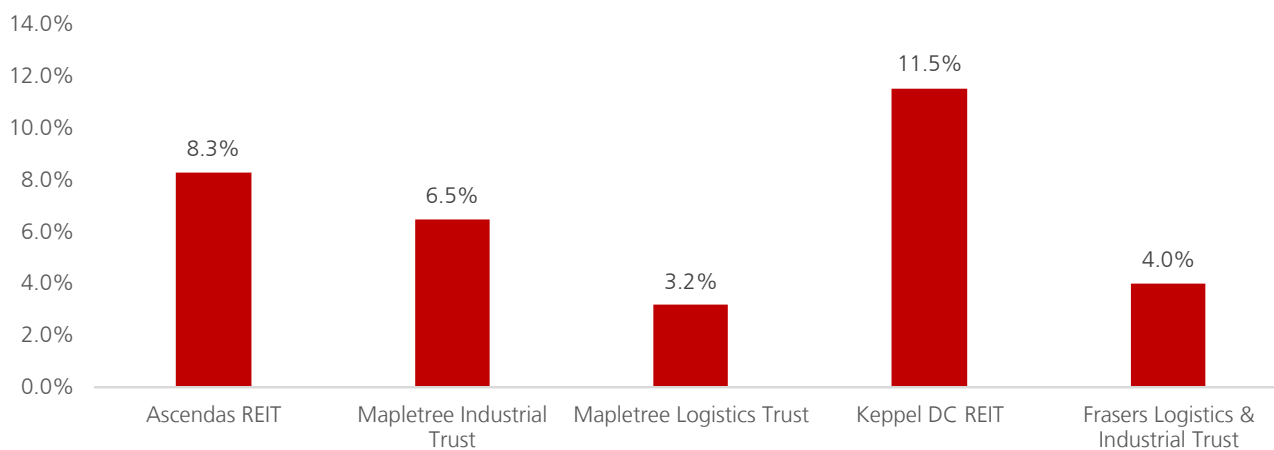
A-REIT share price performance (relative to start of 2020)



Source: Bloomberg Finance L.P., DBS Bank estimates

Growth profiles of large-cap industrial REIT peers

DPU Growth (FY21F)



Source: Bloomberg Finance L.P., DBS Bank estimates

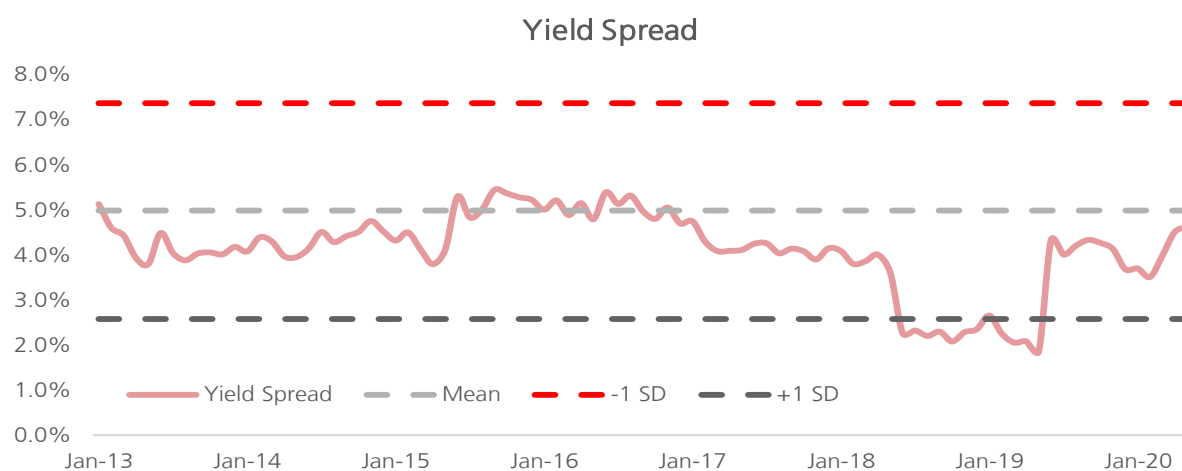
Potential pipeline

Sponsors:	Assets	Sector	Estimated Value (\$'m)	Est. Yield (%)	Potential platforms
CapitalLand Limited	Business Park (Ascent)	Industrial	318	5.5%-6.0%	A-REIT
	Business Park (Galaxis)	Industrial	550	5.5%-6.0%	A-REIT
	Business Park (5 Science Park Drive)	Industrial	173	5.5%-6.0%	A-REIT

Source: Bloomberg Finance L.P., DBS Bank estimates

Ascendas REIT

Growth profiles of large-cap industrial REIT peers

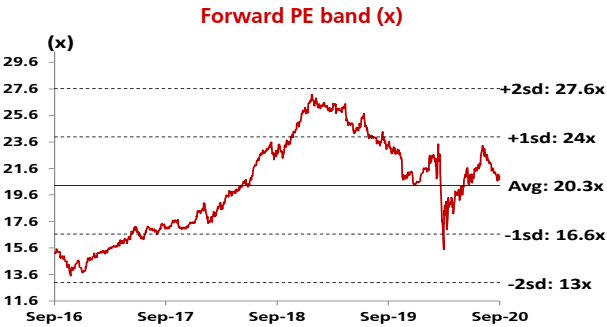


Source: Bloomberg Finance L.P., DBS Bank estimates

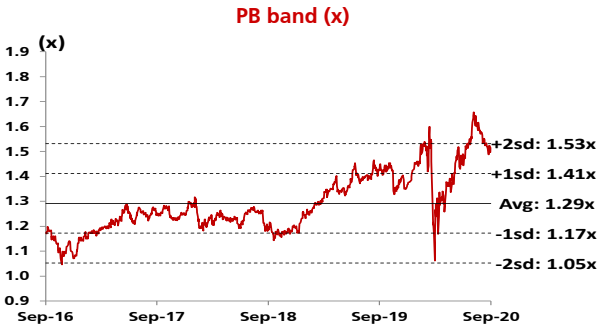
Valuation table

REIT	Price	Rec	12-mth Target Price	Mkt Cap (\$\$'bn)	Yield (FY19/20)	Yield (FY20/21)	Yield (FY21/22)	Yield (FY22/23)	1-year growth
Industrial large caps									
Ascendas REIT	3.25	BUY	4.00	12.2	4.9%	4.6%	5.0%	5.0%	8.3%
Mapletree Industrial Trust	3.29	BUY	3.25	7.3	3.7%	3.6%	3.9%	4.1%	6.5%
Mapletree Logistics Trust	2.03	BUY	2.20	7.9	4.0%	4.0%	4.2%	4.2%	3.2%
Keppel DC REIT	3.00	HOLD	2.80	4.8	2.5%	3.0%	3.3%	3.5%	11.5%
Frasers Logistics & Industrial Trust	1.48	BUY	1.60	4.6	4.9%	4.8%	5.0%	5.1%	4.0%
Average Large cap S-REITs					4.0%	4.0%	4.3%	4.4%	6.4%
Industrial Mid-caps									
Ascendas India Trust	1.33	BUY	1.85	1.5	4.8%	6.9%	7.8%	8.4%	13.0%
ESR REIT	0.39	BUY	0.43	1.4	10.3%	7.3%	8.2%	8.2%	12.2%
ARA LOGOS Logistics Trust	0.63	BUY	0.70	0.1	9.6%	7.6%	7.8%	8.1%	3.0%
Soilbuild Business Space REIT	0.51	BUY	0.50	0.5	8.3%	7.2%	7.4%	7.4%	1.9%
AIMS AMP Capital Industrial REIT	1.20	BUY	1.40	0.8	7.9%	7.5%	8.1%	8.2%	8.6%
Average Mid cap industrial S-REITs					8.2%	7.3%	7.9%	8.1%	7.8%
Average Industrial S-REITs					4.6%	4.5%	4.8%	4.9%	7.1%

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Ascendas REIT

Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	886	699	1,072	1,094	1,110
Property expenses	(237)	(161)	(296)	(248)	(251)
Net Property Income	650	538	775	846	860
Other Operating expenses	(62.1)	(50.3)	(76.0)	(77.6)	(79.0)
Other Non Opq (Exp)/Inc	11.1	(17.1)	0.0	0.0	0.0
Associates & JV Inc	0.49	0.41	6.12	6.12	6.12
Net Interest (Exp)/Inc	(116)	(113)	(159)	(165)	(172)
Exceptional Gain/(Loss)	5.09	3.22	0.0	0.0	0.0
Net Income	488	360	546	610	615
Tax	(14.4)	(20.7)	(12.1)	(13.1)	(13.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	(14.3)	(10.7)	(10.7)	(10.7)	(10.7)
Net Income After Tax	460	329	523	586	591
Total Return	489	377	523	586	591
Non-tax deductible Items	(17.4)	(12.5)	13.6	13.9	14.2
Net Inc available for Dist.	486	375	543	606	611
Growth & Ratio					
Revenue Gth (%)	2.8	(21.1)	53.3	2.1	1.5
N Property Inc Gth (%)	3.2	(17.2)	44.2	9.1	1.6
Net Inc Gth (%)	(3.5)	(28.4)	59.1	11.9	0.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	73.3	76.9	72.3	77.3	77.4
Net Income Margins (%)	51.9	47.1	48.8	53.6	53.2
Dist to revenue (%)	54.8	53.7	50.7	55.4	55.1
Managers & Trustee's fees	7.0	7.2	7.1	7.1	7.1
ROAE (%)	7.2	4.6	6.7	7.4	7.3
ROA (%)	4.2	2.6	3.8	4.1	4.1
ROCE (%)	5.3	3.7	5.0	5.4	5.4
Int. Cover (x)	5.1	4.3	4.4	4.7	4.6

Source: Company, DBS Bank

Driven by acquisitions

Quarterly / Interim Income Statement (\$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	225	230	230	240	521
Property expenses	(61.6)	(52.2)	(51.7)	(57.5)	(133)
Net Property Income	163	177	178	182	388
Other Operating expenses	(15.2)	(16.2)	(16.3)	(17.8)	(38.5)
Other Non Opq (Exp)/Inc	3.27	17.2	(0.7)	(33.6)	19.3
Associates & JV Inc	0	0	6	6	6
Net Interest (Exp)/Inc	(30.2)	(38.3)	(37.3)	(37.8)	(83.1)
Exceptional Gain/(Loss)	0.0	0.0	3.22	0.0	5.39
Net Income	121	140	127	93.3	294
Tax	(6.6)	(2.5)	(3.9)	(14.3)	(14.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	115	138	123	79.0	279
Total Return	144	138	123	127	279
Non-tax deductible Items	(31.0)	(29.0)	(16.1)	(20.1)	(15.9)
Net Inc available for Dist.	113	109	107	107	263
Growth & Ratio					
Revenue Gth (%)	(1)	2	0	4	117
N Property Inc Gth (%)	(3)	9	0	2	113
Net Inc Gth (%)	(11)	20	(11)	(36)	253
Net Prop Inc Margin (%)	72.6	77.3	77.5	76.0	74.4
Dist. Payout Ratio (%)	114.2	114.6	115.8	118.7	100.0

Source: Company, DBS Bank

Ascendas REIT

Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	11,236	13,543	13,653	14,183	14,213
Other LT Assets	82.2	69.4	75.5	81.6	87.7
Cash & ST Invt	52.3	95.7	47.3	45.7	42.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	39.6	36.3	47.9	48.9	49.7
Other Current Assets	4.11	119	119	119	119
Total Assets	11,414	13,864	13,943	14,479	14,513
ST Debt	612	614	754	784	814
Creditor	158	256	191	195	198
Other Current Liab	54.8	109	112	113	113
LT Debt	3,486	4,615	4,615	4,815	4,815
Other LT Liabilities	157	159	180	200	221
Unit holders' funds	6,946	8,111	8,092	8,371	8,351
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	11,414	13,864	13,943	14,479	14,513
Non-Cash Wkg. Capital	(169)	(209)	(136)	(140)	(143)
Net Cash/(Debt)	(4,045)	(5,134)	(5,322)	(5,554)	(5,587)
Ratio					
Current Ratio (x)	0.1	0.3	0.2	0.2	0.2
Quick Ratio (x)	0.1	0.1	0.1	0.1	0.1
Aggregate Leverage (%)	36.5	38.6	39.3	39.5	39.6
Z-Score (X)	1.5	1.2	1.4	1.4	1.4

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	488	360	546	610	615
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(5.7)	(3.6)	(9.1)	(12.1)	(13.1)
Associates & JV Inc/(Loss)	(0.5)	(0.4)	(6.1)	(6.1)	(6.1)
Chg in Wkg.Cap.	19.7	96.7	(76.1)	2.99	2.20
Other Operating CF	111	136	(10.7)	(10.7)	(10.7)
Net Operating CF	612	589	444	584	588
Net Invt in Properties	0.0	0.0	0.0	0.0	0.0
Other Invt (net)	(1,053)	(1,746)	(110)	(530)	(30.0)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.51	0.36	0.0	0.0	0.0
Other Investing CF	24.4	20.6	20.6	20.6	20.6
Net Investing CF	(1,028)	(1,725)	(89.5)	(509)	(9.5)
Distribution Paid	(463)	(502)	(543)	(606)	(611)
Chg in Gross Debt	610	539	140	230	30.0
New units issued	448	1,298	0.0	300	0.0
Other Financing CF	(150)	(149)	0.0	0.0	0.0
Net Financing CF	444	1,186	(403)	(75.9)	(581)
Currency Adjustments	(1.2)	(0.6)	0.0	0.0	0.0
Chg in Cash	27.9	49.6	(48.4)	(1.6)	(3.2)
Operating CFPS (S cts)	19.6	14.6	14.4	15.8	15.7
Free CFPS (S cts)	20.3	17.5	12.3	15.9	15.7

Source: Company, DBS Bank

Ascendas REIT

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Derek TAN

Dale LAI

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 24 Sep 2020 07:19:25 (SGT)

Dissemination Date: 24 Sep 2020 08:03:04 (SGT)

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com