

Singapore Company Update

Ascendas India Trust

Bloomberg: AIT SP | Reuters: AINT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Jan 2022

BUY

Last Traded Price (26 Jan 2022): S\$1.38 (STI : 3,271.57)
Price Target 12-mth: S\$1.70 (23% upside) (Prev S\$1.80)

Analyst

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What's New

- FY21 DPU target missed due to higher taxes and transitory vacancies across its portfolio
- Operational results expected to improve as its park physical occupancies improve, leasing discussions restart after COVID-19 disruptions
- Construction funding and acquisition estimates are pushed further into the future
- BUY maintained, TP revised to S\$1.70

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Gross Revenue	192	193	210	262
Net Property Inc	148	156	162	201
Total Return	131	192	97.7	120
Distribution Inc	113	100	110	134
EPU (S cts)	5.67	5.19	8.18	9.60
EPU Gth (%)	1,465	(9)	57	17
DPU (S cts)	8.84	7.80	8.29	9.63
DPU Gth (%)	37	(12)	6	16
NAV per shr (S cts)	107	116	118	118
PE (X)	24.3	26.6	16.9	14.4
Distribution Yield (%)	6.4	5.7	6.0	7.0
P/NAV (X)	1.3	1.2	1.2	1.2
Aggregate Leverage (%)	30.8	34.5	35.7	37.3
ROAE (%)	5.2	4.6	6.9	8.1

Distn. Inc Chng (%): (17) (10)
Consensus DPU (S cts): 9.90 11.3
Other Broker Recs: B: 5 S: 0 H: 0

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

Navigating near term bends

Investment Thesis

Roaring back in 2022. We maintain our BUY call on Ascendas India Trust (AIT) with a lower TP of S\$1.70. We have tweaked our estimates down to account for high taxes, the INR/SGD exchange rate, and higher vacancy assumptions. That said, we are attracted to AIT, as it is projected to deliver a robust DPU CAGR of 11% in FY22-23F, driven by acquisitions.

Where we differ: More conservative estimates. Despite the near-transitory portfolio vacancies, we see management placing the foundations of future growth, as the trust is positioned as a "New Economy" play with future development projects in IT parks, warehouses, and datacentres. An overall commitment of close to S\$1.0bn over the next four to five years is expected to drive a 50% rise in AUM.

An emerging datacentre player. The manager has invested in the datacenter space, augmenting its position as a leading new economy player in India. The manager has identified two more sites within its IT parks in Bangalore and Hyderabad for datacentre developments and targets an IRR of 11%-12% upon completion in the medium term.

Valuation:

Our DDM-based TP is adjusted to S\$1.70.

Where we differ:

Our estimates are lower than the consensus due to more conservative assumptions.

Key Risks to Our View:

The key risk to our bullish stance on AIT is a significant depreciation of the INR or delay in acquisitions and development projects.

At A Glance

Issued Capital (m shrs)	1,154
Mkt. Cap (S\$m/US\$m)	1,593 / 1,185
Major Shareholders (%)	
CapitaLand	15.9
Kabouter Management LLC	6.9
Ascendas Pte Ltd	5.5
Free Float (%)	55.6
3m Avg. Daily Val (US\$m)	1.8
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Roaring back in 2022

(-) Results below expectations due to higher tax rates

- Ascendas India Trust ("AIT") revenue and net property income for 2HFY21 rose by 6% and 7% y-o-y, respectively, in INR terms to INR5,367m and INR4,325m. This was largely due to income from the Anchor Annex building (ITPL) acquired in Nov 20 and aVance 6 (aVance Hyderabad) acquired in Mar 21, offsetting the drop in occupancy rates in several of its IT parks, lower utilities, and carpark income due to WFH during COVID-19.
- In SGD terms, 3QFY21 revenue and net property income rose by 5% due to a slight weakening in SGD/INR exchange rates.
- In SGD terms, distributable income, however, declined by 14% y-o-y to S\$46.2m. This was mainly due to (i) the reversal of the dividend distribution tax ("DDT") tax provision in FY20 and (ii) higher finance costs incurred on higher borrowings, which was partially offset by higher net property income.
- DPU declined by 13% to 3.60 scts (FY21 DPU of 7.80 scts is 11% lower) forming 90% of our original estimates.

(+) Rise in NAV due to decline in cap rates

- The trust also reported a like-for-like revaluation gain of c.S\$123.8m, or an 8.8% increase in valuations for its initial portfolio, mainly due to a c.25 bps compression in cap rates. Together with acquisitions in 2021, the overall portfolio saw a c.18% increase in AUM, to S\$2.4 billion.
- As a result of the upward revaluation of its properties, gearing remained stable at c35% with the cost of debt remaining at 5.3%, of which 75% is fixed.

Our thoughts:

(-) Where is the earnings miss?

While operational results came in slightly below our estimates due to lower vacancies at ITPC, a portion of the earnings miss came from our tax rate assumptions, which were lower than what was actually incurred. We have since adjusted our tax rate estimates to reflect the current effective tax rates of c.20%-21% in our forward estimates.

(+) Occupancy rates declined marginally; a gradual improvement in FY22

We were more optimistic about our park occupancy assumptions but do note that the drop in occupancy rates is likely behind us, especially in Chennai (ITPC). We note that leasing discussions are restarting as the operating climate continues to see improvement with no current lockdowns in any of the states that AIT operates in. The manager has not disbursed any rental rebates to their office tenants and has only done so for selected retail tenants on a selective basis, with collections remaining robust at c.98%. Despite the COVID-19 wave hitting India, cases have peaked in June 21, with park population gradually returning, with c.11% of the park population back to office by year end.

Portfolio occupancy rates slipped slightly to 87% (FY21) from 89% a quarter ago. This was an 8ppt decrease from 94% as of the end of FY20. The majority of the declines were largely occupancy rates at IT Park Chennai (ITPC), which saw a dip to 65% as of Dec 21, down from 82% at the start of the year. Post Dec 21, we note that the manager has seen an uptick in demand as they recently signed on new tenants (signed and committed) to bring the park occupancy up to c.71% (committed occupancies and advanced discussions).

Apart from its IT parks in Chennai, occupancy rates remained fairly stable for AIT parks in Bangalore (IPTB, 91% occupancy), Hyderabad (90%), ITPH (92%), and Pune (96%). The Aurum Q1 building was recently acquired at a 54% occupancy rate and the manager remains optimistic that it should be substantially leased by the end of FY22.

(+) Reversions remain positive, forward leases "de-risked"

Portfolio reversions remain positive, ranging between 1%-10% for leases signed, with ITPC seeing lower reversions (1%-4%), as the manager brings down rental expectations in order to fill vacancies. Looking ahead, we understand that the manager remains confident to retain a substantial portion of leases in FY22 (24% of revenues). A majority of the expiring leases in FY22 are from Bangalore (5.9ppt of the 24% expiring) and Hyderabad (11.1ppt of the 24% expiring), markets, where we understand the expansionary demand remains robust.

(+) Acquisition pipeline remains robust, but completions are projected to be delayed

The manager continues to build on its internal pipeline of forward-funding projects which is expected to potentially grow its GFA by 68%. Total expected consideration for its pipeline properties over eight projects totaled S\$976m (INR50.2 billion) and the manager is expected to commit a further S\$672m over the coming four to five years. After the completion of AURUM IT SEZ Building 1 (AURUM Q1), we believe that the manager may look at Arshiya Parvel 7th warehouse in 2022 and Aurum Q Parc (INR3.0billion or S\$60m) as potential prospects for acquisition sometime in 2H22. We understand that aVance Hyderabad 5 (completion in 1H22), with an additional investment capital of INR4.1billion (S\$82m), is a medium-term acquisition prospect in 2023.

Given the revised delays in acquisition timelines and potential delays in construction progress, we have pared our construction and acquisition estimates to 2H22, 2023, and beyond.

(+) Entrenching itself as an emerging datacentre player

AIT recently completed the acquisition of a land for development of a datacentre in Navi Mumbai, India for INR1.3bn (S\$23.8m). Phase 1 (out of two phases) is expected to cost INR12bn (c.S\$216.6m) till 3Q2024, to develop a fully fitted DC campus with two buildings, with a total sanctioned load of 90MW. The manager is in discussion with a potential target end customer who is keen to take up both phases of the project.

Within its portfolio, AIT has identified two datacentre opportunities in ITPH and ITPB and is looking to build a 20MW and 18MW datacenters onsite. Details will be unveiled in due course, and we have not put in our estimates at this moment.

Stock implications.

While a near-term earnings disappointment due to transitional vacancies may occur, we believe that we are past the trough. With signs of leasing discussions restarting and acquisition/construction momentum gaining speed, we believe that 2022 will be a much better year for AIT. Our estimates are cut by 11%-17% due to (i) lowering of rental and occupancy assumptions, (ii) delays in acquisitions, and (iii) higher SGD/INR and tax rates. Our TP is adjusted to S\$1.70 as a result. Despite the earnings cut, AIT still offers an attractive 11% CAGR in DPU from FY22-23F.

Company Background

Ascendas India Trust ("AIT") was listed in August 2007 as the first Indian property trust in Asia. Its principal objective is to own income-producing real estate used primarily as business space in India. AIT may also develop and acquire land or uncompleted developments to be used primarily as business space, with the objective of holding the properties upon completion.

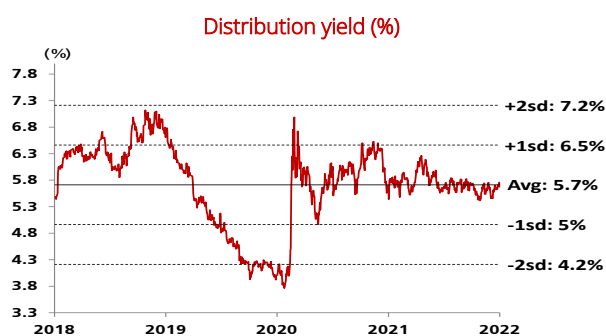
Ascendas India Trust

Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Gross revenue	92.7	95.4	97.4	5.0	2.1
Property expenses	(18.3)	(18.1)	(18.9)	3.4	4.4
Net Property Income	74.4	77.3	78.5	5.5	1.5
Other Operating expenses	(13.3)	(11.0)	(10.9)	(17.9)	(0.8)
Other Non Opg (Exp)/Inc	(7.8)	1.91	(2.5)	68.5	(229.3)
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	4.22	2.20	0.23	(94.6)	(89.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	57.5	70.4	65.3	13.6	(7.2)
Tax	(40.4)	(19.2)	(48.4)	19.8	152.4
Minority Interest	(7.8)	(3.1)	(5.1)	34.6	63.8
Net Income after Tax	9.33	48.1	11.8	26.6	(75.4)
Total Return	75.0	55.3	137	82.7	147.7
Non-tax deductible Items	(1.4)	(11.8)	(19.5)	1,268.2	65.6
Net Inc available for Dist.	53.6	53.8	46.2	(13.7)	(14.0)
Ratio (%)					
Net Prop Inc Margin	80.3	81.0	80.6		
Dist. Payout Ratio	90.0	90.0	90.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



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



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

Ascendas India Trust

Key

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	150	192	193	210	262
Property expenses	(37.0)	(43.8)	(37.0)	(48.4)	(60.2)
Net Property Income	113	148	156	162	201
Other Operating expenses	(16.9)	(34.7)	(22.5)	(21.1)	(25.5)
Other Non Opg (Exp)/Inc	(5.1)	6.90	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(3.2)	7.49	2.43	(15.4)	(20.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	88.3	128	136	125	155
Tax	(73.3)	(50.5)	(67.6)	(25.1)	(32.6)
Minority Interest	(11.2)	(12.1)	(8.2)	(2.7)	(2.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	3.82	65.1	59.9	97.7	120
Total Return	178	131	192	97.7	120
Non-tax deductible Items	(18.5)	(8.4)	(31.2)	12.4	13.7
Net Inc available for Dist.	75.5	113	100	110	134
Growth & Ratio					
Revenue Gth (%)	(17.4)	27.5	0.5	9.2	24.3
N Property Inc Gth (%)	(16.4)	30.5	5.3	4.0	24.3
Net Inc Gth (%)	(80.4)	1,602.7	(7.9)	63.1	22.6
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	75.4	77.2	80.8	77.0	77.0
Net Income Margins (%)	2.5	34.0	31.1	46.4	45.8
Dist to revenue (%)	50.2	58.8	51.9	52.3	51.0
Managers & Trustee's fees	11.2	18.1	11.7	10.0	9.7
ROAE (%)	0.3	5.2	4.6	6.9	8.1
ROA (%)	0.2	2.5	2.1	3.0	3.5
ROCE (%)	0.7	2.7	2.4	3.6	4.2
Int. Cover (x)	30.5	NM	NM	9.1	8.5

Source: Company, DBS Bank

Growth from acquisitions,
improving occupancies

Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	100.0	92.7	95.4	97.4
Property expenses	(26.5)	(18.3)	(18.1)	(18.9)
Net Property Income	73.5	74.4	77.3	78.5
Other Operating	(10.0)	(13.3)	(11.0)	(10.9)
Other Non Opg (Exp)/Inc	3.35	(7.8)	1.91	(2.5)
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	3.27	4.22	2.20	0.23
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	70.2	57.5	70.4	65.3
Tax	(10.1)	(40.4)	(19.2)	(48.4)
Minority Interest	(4.4)	(7.8)	(3.1)	(5.1)
Net Income after Tax	(44.2)	9.33	48.1	11.8
Total Return	55.8	75.0	55.3	137
Non-tax deductible Items	(6.9)	(1.4)	(11.8)	(19.5)
Net Inc available for Dist.	59.0	53.6	53.8	46.2
Growth & Ratio				
Revenue Gth (%)	N/A	(7)	3	2
N Property Inc Gth (%)	nm	1	4	2
Net Inc Gth (%)	nm	(83)	415	(75)
Net Prop Inc Margin (%)	73.5	80.3	81.0	80.6
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	5.24	5.18	34.4	34.3	34.1
Other LT Assets	2,425	2,465	2,838	3,059	3,153
Cash & ST Invts	79.6	101	168	182	198
Inventory	0.48	0.45	0.52	0.52	0.52
Debtors	34.2	57.9	58.1	58.1	58.1
Other Current Assets	32.9	22.2	39.8	39.8	39.8
Total Assets	2,577	2,651	3,139	3,374	3,484
ST Debt	180	119	449	449	449
Creditor	103	108	138	138	138
Other Current Liab	1.30	2.27	2.91	2.91	2.91
LT Debt	564	698	634	756	849
Other LT Liabilities	397	401	466	466	466
Unit holders' funds	1,245	1,236	1,357	1,468	1,481
Minority Interests	88.1	87.3	91.7	94.3	97.2
Total Funds & Liabilities	2,577	2,651	3,139	3,374	3,484
Non-Cash Wkg. Capital	(36.3)	(29.8)	(42.8)	(42.8)	(42.8)
Net Cash/(Debt)	(664)	(716)	(915)	(1,023)	(1,100)
Ratio					
Current Ratio (x)	0.5	0.8	0.5	0.5	0.5
Quick Ratio (x)	0.4	0.7	0.4	0.4	0.4
Aggregate Leverage (%)	28.9	30.8	34.5	35.7	37.3
Z-Score (X)	0.6	0.6	0.7	0.8	0.8

Source: Company, DBS Bank

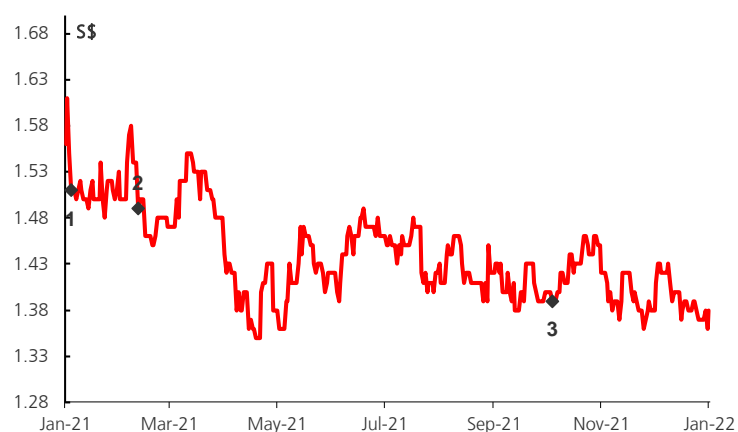
Ascendas India Trust

Cash Flow Statement (S\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	189	128	200	125	155
Dep. & Amort.	0.36	0.44	0.72	0.15	0.15
Tax Paid	54.4	(50.5)	(32.2)	(25.1)	(32.6)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	2.06	3.42	6.77	0.0	0.0
Other Operating CF	(144)	59.5	(28.2)	12.2	13.6
Net Operating CF	102	141	148	113	136
Net Invnt in Properties	(139)	(87.5)	(211)	(222)	(93.8)
Other Invnts (net)	(20.0)	19.8	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(159)	(67.8)	(211)	(222)	(93.8)
Distribution Paid	(99.7)	(69.3)	(101)	(99.1)	(120)
Chg in Gross Debt	12.1	66.8	278	122	93.8
New units issued	153	0.0	0.0	100	0.0
Other Financing CF	(33.5)	(46.1)	(47.5)	0.0	0.0
Net Financing CF	31.9	(48.6)	130	122	(26.4)
Currency Adjustments	(3.5)	(2.7)	0.33	0.0	0.0
Chg in Cash	(28.9)	21.5	66.8	13.7	16.3
Operating CFPS (S cts)	9.47	12.0	12.2	9.43	10.9
Free CFPS (S cts)	(3.5)	4.62	(5.5)	(9.1)	3.42

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 21	1.51	1.85	BUY
2:	08 Mar 21	1.49	1.85	BUY
3:	29 Oct 21	1.39	1.80	BUY

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

Source: DBS Bank

Analyst: Derek TAN

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

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