

Ascendas REIT

Leveraging scale for growth



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SINGAPORE | REAL ESTATE (REITS) | FY21 UPDATES

14 February 2022

- FY21 DPU of 15.258 scts (+3.9% YoY) missed, forming 95.1% of our forecast. DPU growth was driven by contributions from newly acquired properties.
- Portfolio occupancy up 1.5ppts YoY to 93.2%, with average reversions of +4.5% on leases signed in FY21 (FY20: 3.8%). Record S\$2.1bn in investments/AEIs completed in FY21 with S\$647mn worth of ongoing AEIs/redevelopments.
- Reiterate BUY, DDM-TP lowered from S\$3.65 to S\$3.52. FY22-25e DPUs dip 2.1-4.9% after factoring in higher OPEX. Our DDM-based TP is lowered by 3.6% to S\$3.52 due to lower DPUs and higher COE of 6.12% (previous 6.0%), after factoring a higher risk-free rate. AREIT remains our top pick for the sector in view of its scale and diversification. The REIT also continues to forge a future-ready portfolio by increasing its exposure to growth sectors of the economy such as knowledge economy, technology and e-commerce.

Results at a glance

(SGD mn)	2H21	2H20	YoY	FY21	FY20	YoY	Comments
Gross revenue	641	528	+21.3%	1,227	1,050	+16.9%	Higher due to acquisitions of 2 office properties in San Francisco (Nov20), 11 European Data Centres (Mar21), 2 Australian suburban offices (Sep20 and Jan21), remaining 75% stake in Galaxis (Jun21), 11 logistic properties in USA (Nov21) and the completion of BTS Grab Headquarters in Singapore
Net property income	475	388	+22.4%	921	776	+18.6%	
Distributable income	319	275	+15.9%	630	538	+17.0%	
DPU (cents)	7.598	7.418	+2.4%	15.258	14.688	+3.9%	Lower due to enlarged unit base from EFR. The manager has waived S\$7.4mn or 46.8% of its entitled performance fee in FY21. FY21 DPU without the performance fee waiver would have been lower at 15.058 Scts (+2.5% YoY)
No. of units (mn)	4,198	3,710	+13.2%	4,129	3,666	+12.6%	Increase in unit base from the private placement in May21 and preferential offering in Dec20

Source: Company, PSR

The Positives

+ Portfolio occupancy up 1.5ppts YoY from 91.7% to 93.2%, led by Singapore (+1.8ppt), Australia (+1.8ppt) and the US (+1.6ppt). UK occupancy dip of 0.8ppt due to non-renewals. Singapore's occupancy improved 1.8ppts YoY to 90.2% due to better leasing at business parks and logistics assets. 70% of demand was driven by tenants in the IT & data centres (25.5%), biomedical (24.6%), engineering (11.4%) and chemicals (8.5%). Australia's +1.8ppt occupancy gains were driven by logistics assets. US occupancy increased 3.1ppts QoQ from 91.4% to 94.5% due to the improvement in occupancy of its newly acquired logistics portfolio. The portfolio of 11 logistics assets was acquired in Nov 21 at an acquisition occupancy of 92.6%. AREIT managed to lease out all the vacant space by end-Dec.

+ FY21 average portfolio reversions were positive at 4.5% (FY20: 3.8%). Reversions in Singapore came in at 2.9%, positive across all asset classes. Business parks (+2.9%) captured demand from new economy industries such as tech, biomedical and chemical, as well as government tenants. Reversions for logistics came in at +4.4%, pulling demand from 3PL tenants. Reversions for US business parks came in at +22.6% due to under-market passing rents while UK data centres delivered +6.2% reversions.

The Negative

- Delays in AEI/development timelines with slight cost escalations. Labour, supply chain constraints and cost of compliance with healthy-safety requirements for projects undergoing construction during the pandemic has led to delays and slightly higher construction cost. Delivery of some projects have been pushed back between 1-4 quarters, such as the redevelopment of iQuest, which has been delayed from 4Q23 to 4Q24. Projects completed

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.870
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 3.520
TOTAL RETURN	28.2%

COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN):	4,198
MARKET CAP (USD mn / SGD mn):	9693 / 12963
52 - WK HI/LO (SGD):	3.65 / 2.22
3M Average Daily T/O (mn):	11.05

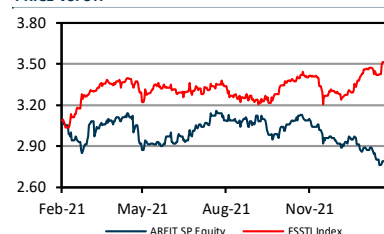
MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	18.0%
BLACKROCK	5.4%
MONDRIAN INVESTMENT PARTNERS LTD	3.9%
VANGUARD GROUP INC	3.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.3	(7.1)	(2.7)
STI RETURN	5.7	6.5	9.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (SGD mn)	1,049	1,227	1,302	1,322
NPI (SGD mn)	776	921	972	987
Dist. Inc. (SGD mn)	538	630	674	698
P/NAV (x)	1.30	1.21	1.21	1.22
DPU (cents)	14.69	15.26	16.03	16.56
Distribution Yield (%)	5.12	5.32	5.58	5.77

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.12%; Terminal g: 1.5%)

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in FY21/22 delivered ROIs close to their initial projections. Initial projected ROIs for the Grab build-to-suit and the redevelopment of UBIX were 6.1% and 7.7% respectively and were completed on 30 Jul 21 and 7 Jan 22, with ROIs of 6.0% and 6.7% respectively.

Outlook

Possible NPI margin compression due to cost inflation. Energy costs are likely to fluctuate upwards as most of AREIT's electricity is generated from fuel sources. The management estimates that electricity costs, which accounts for c.20% of OPEX, could increase by 50-70% in FY22. As there are no fixed rates or bulk discounts available to hedge the rising electricity costs, the management will try to offset the higher electricity costs through cost containment measures. Tenant leases have clauses which allow the adjustment of service costs, providing AREIT possible recourse to pass through higher inflation driven OPEX.

Leveraging scale to drive value. AREIT's AUM as at 31 Dec 21 stands at S\$16.3bn, comprising 217 properties. Asset concentration risk is low, with its largest assets, Galaxis, representing 4.3% of revenue. Given the size of its asset base, AREIT's sizable debt headroom of S\$4.8bn to reach 50% gearing allows it to take meaningful strides into new asset classes in overseas markets, while its low asset concentration risk allows it to undertake AEs and redevelopments without significant impact to earnings. During the year, AREIT completed S\$2.1bn of acquisitions/developments and S\$23.3mn of asset enhancement initiatives (Figure 1). It also divested five properties for total sales proceeds of S\$247.9mn. There are six AEs and redevelopments ongoing worth S\$647mn (Figure 2), expected to be delivered between 1Q22 to 2Q25. From AREIT's prior experience, refreshed properties have enjoyed higher-than-market take-up rates.

Ninety percent of AUM are new economy assets such as business space, high-spec assets, data centres and logistics properties. "Old economy" assets such as flatted factories and light industrial assets represent 6% of AUM. Some of these assets are in prime industrial areas such as Tai Seng and Serangoon and could receive some convert-to-suit demand or be redeveloped into new economy assets such as data centres or high spec properties. The management will try to secure one of the data centre licences from the government in the near future. Repositioning of assets, such as converting light-industrial assets to high-spec asset, allows AREIT to command higher rents and keep its portfolio future ready.

Maintain BUY, DDM TP lowered from S\$3.65 to S\$3.52

FY22-25e DPU's dip 2.1-49% after factoring in higher OPEX. Our DDM-based TP is lowered by 3.6% to S\$3.52 due to lower DPU's and higher COE of 6.12% (prev. 6.0%), after factoring a higher risk-free rate. AREIT remains our top pick for the sector in view of its scale and diversification. The REIT also continues to forge a future-ready portfolio by increasing its exposure to growth sectors of the economy such as knowledge economy, technology and e-commerce.

Figure 1: S\$2.1bn in acquisitions/AEI and S\$248mn in divestments completed in FY21

Completed	Property	Asset Type	S\$ mn
Completed Acquisitions			
13-Jan-21	1-5 Thomas Holt Drive, Sydney, Australia	Business Space	284.0
17-Mar-21	11 European Data Centres	Data Centre	904.6
30-Jun-21	Galaxis (75% stake)	Business Space	534.4
5-Nov-21	11 Logistic Properties, Kansas City, USA	Logistics	207.8
			1,931
Completed Development			
30-Jul-21	Grab Headquarters	Business Space	184.6
			184.6
Completed AEI			
Apr-21	21 Changi South Avenue 2, Singapore	Logistics	4.7
1-Apr-21	100 & 108 Warwick Street, Brisbane, Australia	Business Space	11.1
1-Dec-21	Hansapoint, Singapore	Business Space	7.5
			23.3
Completed Divestments			
16-Apr-21	11 Changi Noth Way, Singapore	Logistics	16.0
21-Jun-21	1314 Ferntree Gully Road	Logistics	24.2
9-Jul-21	82 Noose St and 62 Stradbroke St, Brisbane, Australia	Logistics	104.5
30-Nov-21	1 Science Park Drive, Singapore (to CDL-AREIT JV)	Business Space	103.2
			247.9
			2,387

Source: AREIT, PSR

Figure 2: Ongoing AEIs and redevelopments worth S\$647mn

Est. Completion	Property	Asset Type	S\$ mn
Acquisition Under Development			
1Q22	Lot 7, Kiora Crescent, Sydney Australia	Logistics	21.1
1Q22	500 Green Road, Brisbane, Australia	Business Space	69.1
4Q22	MQX4, Macquarie Park, Sydney, Australia	Business Space	161.0
			251.2
Redevelopment			
2Q25	1 Science Park Drive, Singapore (34% Stake)	Business Space	300.2
4Q24	iQuest@IBP, Singapore	Business Space	84.3
			384.5
AEI			
2Q22	Changi Logistics Centre	Logistics	11.3
			647.0

Source: AREIT, PSR

Financials
Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	699	1,049	1,227	1,302	1,322
Property expenses	(161)	(273)	(306)	(330)	(335)
Net property income	538	776	921	972	987
Net Finance (Expense)/Inc.	(113)	(159)	(159)	(172)	(177)
Manager's fees	(43)	(67)	(87)	(107)	(83)
Other items	(12)	6	24	(15)	(15)
Net income	369	556	699	678	712
FV change, derivatives & pptides	44	(71)	341	(5)	(5)
Share of JV's results	0.41	9.59	3.30	0.44	0.44
Total Return Before Tax	409	494	1,044	673	707
Taxation	(21)	(37)	(86)	(37)	(39)
Total Return After Tax	388	457	957	636	668
Distribution adjustments	(12)	81	(327)	38	30
Income available for distribution	375	538	630	674	698

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (cents)	216.0	221.0	238.0	236.3	235.1
DPU (cents)	11.49	14.69	15.26	16.03	16.56

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Total Return Before Tax	409	494	1,044	673	707
Adjustments	87	221	(194)	198	198
WC changes	97	20	(83)	(140)	3
Cash generated from ops	593	736	767	731	907
Others	(4)	(6)	(26)	(6)	(7)
Cashflow from ops	589	729	740	725	901

CFI

Purchase of Inv. propty., net	(1,587)	(644)	(1,611)	-	-
Capex, net	(138)	(246)	(274)	(170)	(133)
Others	0	9	2	18	15
Cashflow from investments	(1,725)	(880)	(1,882)	(152)	(118)

CFF

Share issuance, net	1,310	1,196	420	-	-
Loans, net of repayments	539	83	1,416	119	87
Distributions to unitholders	(516)	(613)	(387)	(674)	(698)
Interest expense and perpetual pa	(122)	(156)	(138)	(172)	(175)
Others	-	-	-	(32)	(30)
Cashflow from financing	1,210	511	1,311	(727)	(786)
Net change in cash	75	360	169	(154)	(3)
Effects of exchange rate	(0.6)	0.8	1.1	-	-
Ending cash	55	278	382	163	96

Source: Company, Phillip Securities Research (Singapore) Estimates

*FY19 comprises 3 quarters of results due to change in financial year from 31 March to 31 December

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	12,743	13,708	16,294	16,622	16,755
Inv. Propty. Under Devmnt.	182	260	246	88	88
Others	687	803	735	742	750
Total non-current assets	13,613	14,770	17,275	17,452	17,593
Trade receivables	36	67	82	68	69
Cash	96	278	369	149	83
Others	119	8	5	5	5
Total current assets	251	353	456	222	157
Total Assets	13,864	15,123	17,730	17,675	17,750
LIABILITIES					
Borrowings	577	421	1,251	1,463	1,161
Trade payables	256	298	386	232	236
Others	146	125	135	135	135
Total current liabilities	979	843	1,771	1,830	1,531
Borrowings	4,035	4,261	4,834	4,741	5,130
Others	739	828	848	853	860
Total non-current liabilities	4,774	5,090	5,682	5,593	5,989
Total Liabilities	5,753	5,933	7,453	7,423	7,521
Net assets	8,111	9,191	10,277	10,251	10,229
Represented by:					
Unitholders' funds	7,810	8,892	9,978	9,952	9,930
Perp. securities holders	301	299	299	299	299
Non-controlling interests	-	-	-	-	-

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.33	1.30	1.21	1.21	1.22
Distribution Yield (%)	4.0	5.1	5.3	5.6	5.8
NPI yield (%)	4.5	5.8	6.0	5.8	5.9

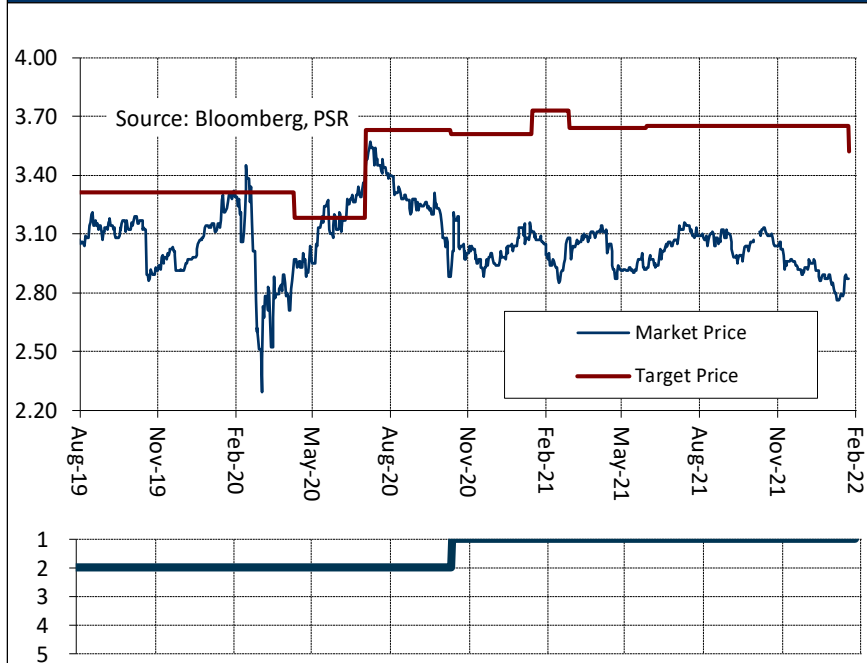
Growth & Margins (%)

Growth					
Revenue	-21.1%	50.1%	16.9%	6.1%	1.5%
Net property income (NPI)	-17.2%	44.4%	18.6%	5.6%	1.5%
Distributable income	-22.7%	43.4%	17.0%	7.0%	3.6%
DPU	1.6%	27.8%	3.9%	5.0%	3.3%
Margins					
NPI margin	76.9%	74.0%	75.1%	74.7%	74.7%

Key Ratios

Gearing (%)	35.4%	32.9%	36.0%	36.8%	37.2%
Interest Coverage Ratio	3.9x	4.3x	5.2x	4.4x	4.5x
Adjusted ICR	3.5x	3.9x	4.9x	4.2x	4.3x
Net Debt or (Net Cash)	4,516	4,404	5,716	6,054	6,208

Ratings History



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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