

# Singapore Company Update

## AIMS APAC REIT

Bloomberg: AAREIT SP | Reuters: AIMA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Apr 2022

### BUY

Last Traded Price (27 Apr 2022): S\$1.42 (STI : 3,320.67)  
Price Target 12-mth: S\$1.55 (9% upside) (Prev S\$1.60)

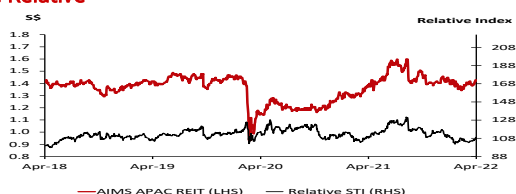
#### Analyst

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

#### What's New

- FY22 DPU of 9.46 Scts beats our estimates
- Renewal of master lease with Illumina for another 10 years at a c.16% positive rental reversion
- With gearing already near optimal levels, we assume some equity fundraising for its future acquisitions
- Maintain BUY with revised TP of S\$1.55

#### Price Relative



#### Forecasts and Valuation

FY Mar (S\$m)	2021A	2022A	2023F	2024F
Gross Revenue	123	142	161	174
Net Property Inc	87.5	103	115	124
Total Return	47.6	89.2	65.2	72.8
Distribution Inc	63.3	67.3	70.4	76.0
EPU (S cts)	11.2	13.4	8.84	9.60
EPU Gth (%)	(26)	19	(34)	9
DPU (S cts)	8.95	9.46	9.55	10.0
DPU Gth (%)	(6)	6	1	5
NAV per shr (S cts)	136	140	139	139
PE (X)	12.6	10.6	16.1	14.8
Distribution Yield (%)	6.3	6.7	6.7	7.1
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	37.2	39.4	39.8	39.8
ROAE (%)	8.3	9.7	6.3	6.9

Distn. Inc Chng (%): (4) 0  
Consensus DPU (S cts): 9.6 10.0  
Other Broker Recs: B: 5 S: 0 H: 0

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

### Illuminated by master lease extension

#### Investment Thesis

**Maintain BUY, revised TP of S\$1.55.** AIMS APAC REIT (AAREIT) has delivered on acquisitions to drive DPU growth of c.6% in the past year and we expect the growth trajectory to continue. However, with gearing already at optimal levels, we assume further growth will require some equity fundraising.

**Potential for further organic growth in portfolio.** In addition to the potential to tap into unutilised GFA of more than 500,000 sqft within its Singapore portfolio, Woolworths HQ presents the opportunity to leverage on a further c.1.5m sqft of unutilised GFA. Moreover, the annual rental escalations for its master leases provide for organic revenue growth of c.1%-3%.

**Looking to the next accretive acquisition.** Following on from the acquisition of Woolworths HQ in Sydney, we look forward to the completion of the acquisition of 315 Alexandra Road in Singapore. With the stock's recent inclusion into the FTSE EPRA NAREIT Developed Asia Index, we believe the improved trading liquidity of AAREIT and potential lowering in cost of equity would enable it to embark on further accretive acquisitions despite the stiff competition for good-quality income-producing assets.

#### Valuation:

**Maintain BUY; DCF-based TP of S\$1.55.** Our target price of S\$1.55 is based on DCF methodology. Our assumed discount rate is 6.2% (risk-free rate of 3.0%). Our target price implies target yield of 6.2% (FY23F) and P/NAV of 1.1x.

#### Where we differ:

**We have factored in some fundraising for the next acquisition.** In our view, our estimates are conservative, as we have assumed a potential equity fundraising of c.S\$52.4m to fund the acquisition of 315 Alexandra Road and manage its balance sheet. Equity fundraising of less than that presents an upside to our earnings estimates.

#### Key Risks to Our View:

Key risks include further delays in the completion of the 315 Alexandra Road acquisition.

#### At A Glance

Issued Capital (m shrs)	712
Mkt. Cap (S\$m/US\$m)	1,011 / 733
Major Shareholders (%)	
ESR Cayman	12.9
Credit Suisse Group AG	10.4
George Wang	8.7
Free Float (%)	52.7
3m Avg. Daily Val (US\$m)	1.6
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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## WHAT'S NEW

## Illuminated by master lease extension

**(+) FY22 DPU of 9.46 Scts beats our estimates**

AAREIT reported a FY22 DPU of 9.46 Scts, a 5.7% increase y-o-y. This came on the back of better performance at 20 Gul Way, 8 & 10 Pandan Crescent, 29 Woodlands Industrial Park, and 541 Yishun Industrial Park A. The 17.9% y-o-y increase in NPI to S\$103.2m was also from the full-year contribution of 7 Bulim Street as well as contributions from Woolworths HQ in November 2021. The upside surprise in earnings also came from the fair value gain of derivative financial instruments.

When comparing the 2H22 DPU of 4.71 Scts on a y-o-y basis, it declined 4.8%. This was mainly due to the enlarged perpetual securities base following the S\$250m issuance on 1 September 2021. Currently, perpetual securities on the balance sheet amount to c.S\$373.5m, and it makes up c.27.2% of AAREIT's total unitholders' equity.

**(+) Solid rental reversions of 14.7% in 4Q22**

AAREIT's portfolio occupancy was maintained at a healthy 97.6% following 25 new and renewal leases signed in 4Q22. The leases signed during the quarter translate to c.500,000 sqft in NLA, and the average positive rental reversions were 14.7%. The strong positive reversions were mainly attributable to the renewal of the master lease with Illumina at North Tech (c.275,000 sqft). AAREIT signed a 10-year lease renewal with Illumina at a c.16% positive reversion and we understand that the lease includes a 5% rental step up every two years. Although AAREIT has committed to spend c.S\$7m in capex for improvements at the property over the next two years, it would mostly be capitalised.

Its Pandan Crescent property also reported positive rental reversions for renewal leases, but they were more modest, ranging from 4% to 12%. The positive rental reversions for the overall portfolio were partially offset by some negative reversions at 1A International Business Park (IBP). During the quarter, we understand that rental reversions at IBP were c.-8%. We expect IBP to continue facing some downward pressure on rents, as Perennial Business City, which is around the corner, will progressively commence operations this year. Being a newly refurbished property that is in closer proximity to the Jurong East MRT Station, we believe that Perennial Business City will compete for tenants from other office buildings in the surroundings, including IBP.

**(+) Some portfolio revaluation gains; cap rates remain largely stable**

In its FY22 portfolio revaluations exercise, AAREIT portfolio was valued at S\$2.2bn, a c.31.5% increase. This was mainly attributed to the addition of Woolworths HQ. Excluding the Woolworths HQ, portfolio valuations increased c.S\$22.5m. C.S\$22.0m came from revaluation gains for several properties in Singapore, while c.S\$0.5m came from the Australian portfolio. We understand that valuation cap rates remained relatively stable, and revaluation gains were mostly attributed to lease extensions and rental growth within the portfolio.

## Valuation uplift on the back of improving underlying cash flows

	No. of Properties	Valuation as at 31 March 2022 (\$'000)	Valuation as at 31 March 2021 (\$'000)	Change (\$'000)	Change (%)
Singapore <sup>1</sup>	26	S\$1,370,200	S\$1,348,200	S\$22,000	1.6
Australia <sup>2</sup>	3	S\$897,668 <sup>3</sup> (A\$886,060)	S\$376,503 <sup>4,5</sup> (A\$367,900)	S\$521,165 (A\$518,160)	>100
<b>Total</b>	<b>29</b>	<b>S\$2,267,868</b>	<b>S\$1,724,703</b>	<b>S\$543,165</b>	<b>31.5</b>

Source: AAREIT

**(+) AAREIT shielded from rising utility costs**

We note that AAREIT's lease structures with tenants allow for utility costs to be largely passed on to tenants. As such, we believe that recent spikes in electricity will have very limited impact on AAREIT.

**(+) Only 14.4% of leases will expire in FY23**

In FY23, only 14.4% of leases (by GRI) are due to expire. Lease expiries are well spread out across AAREIT's portfolio, and we remain optimistic that AAREIT will be able to continue building on the healthy positive reversions reported over the past year. The largest master lease expiring in FY23 will be KWE's lease at 7 Bulim Street, which accounts for c.6.2% of GRI. Given the continued growth of the 3PL sector, we believe that AAREIT will be able to retain KWE, and the continued growth in rents for modern ramp-up facilities could also support some positive rental reversions for the asset.

**(+) All-in cost of debt inched down to 2.7%**

Compared to the previous quarter, AAREIT's all-in financing costs inched down 0.1% to 2.7%. Currently, c.62% of AAREIT's debt is hedged to fixed rates, and it will increase to c.92%. Although only S\$35m of debt will be maturing in FY23, we understand that rising margins of interest rate swaps could potentially lead to a slight increment in AAREIT's all-in financing costs during the year.

**(-) 315 Alexandra Road acquisition has been further delayed**

The proposed acquisition of 315 Alexandra Road has been further delayed to 8 June 2022, pending regulatory approvals. We had previously assumed that the acquisition would be completed at the end of FY22, and we have now pushed the acquisition assumption back by another two quarters in our projections.

When the proposed acquisition was first announced in January 2021, the property was assumed to be fully debt funded. However, AAREIT's gearing has since risen to 37.5% following the acquisition of Woolworths HQ in November 2021. As such, fully funding the acquisition of 315 Alexandra Road would bring AAREIT's gearing to slightly above 40%. Adopting a more conservative approach, we have assumed that the acquisition will be equally funded by debt and equity.

**Our thoughts**

We were positively surprised with the strong showing by AAREIT in FY22, as they rode on the strong rebound from the depths of the COVID-19 pandemic. In addition to the improved performance at several properties and the inclusion of Woolworths HQ, part of the company's outperformance in FY22 was also attributed to the gains from financial derivatives. More importantly, AAREIT reported a very strong positive rental reversion of 14.7% in 4Q22. With 14.4% of the lease expiries in FY23 well spread out across its portfolio, we believe there is potential for further positive rental reversions in the year. Moreover, annual rental escalations of between 2.75% to 3.25% for leases in Australia will support organic growth. Coupled with the full-year contribution from Woolworths HQ and the assumed acquisition of 315 Alexandra Road by 2Q23, we project a c.1.0% growth in DPU y-o-y.

However, we have taken a conservative approach in projecting our financing cost assumptions going forward, given the rising interest rates. Although AAREIT reported a marginal improvement in financing costs and an increase in the hedging of its interest rates to fixed rates (92% of debt), we prefer to remain conservative. As such, we have assumed a 30bps increase in AAREIT's all-in cost of financing over the next two years and have revised our risk-free rate assumptions to 3.0% in our DCF valuation.

We will be maintaining our **BUY** recommendation with a slightly lower TP of **S\$1.55** based on a higher risk-free rate assumption.

**Company Background**

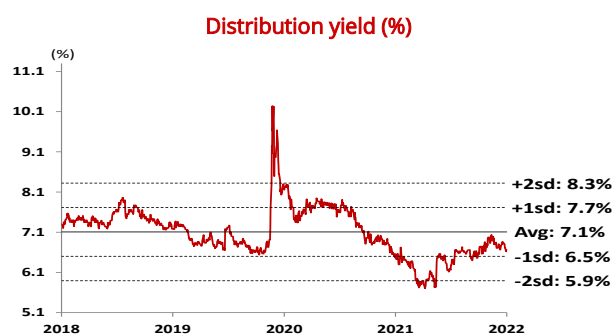
**AIMS APAC REIT (AAREIT)** is a growing industrial real estate investment trust listed on the mainboard of the Singapore Exchange since April 2007. AAREIT's principal investment objective is to deliver secure and stable distributions.

## Interim Income Statement (\$m)

FY Mar	2H2021	1H2022	2H2022	% chg y-o-y	% chg h-o-h
Gross revenue	64.9	65.3	77.1	18.9	18.2
Property expenses	(17.3)	(17.5)	(21.7)	25.1	23.6
Net Property Income	47.6	47.7	55.5	16.6	16.3
Other Operating expenses	(6.9)	(6.0)	(13.2)	90.7	121.1
Other Non Opg (Exp)/Inc	2.86	1.12	7.01	144.9	524.2
Associates & JV Inc	27.7	27.3	20.9	(24.7)	(23.4)
Net Interest (Exp)/Inc	(10.4)	(10.2)	(11.9)	(14.7)	(15.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Net Income</b>	<b>60.9</b>	<b>59.9</b>	<b>58.3</b>	<b>(4.3)</b>	<b>(2.7)</b>
Tax	(5.2)	(4.4)	(3.8)	(26.9)	(12.6)
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>55.7</b>	<b>55.5</b>	<b>54.4</b>	<b>(2.2)</b>	<b>(1.9)</b>
Total Return	45.2	70.6	33.5	(25.9)	(52.6)
Non-tax deductible Items	3.94	(15.7)	17.8	353.2	(213.5)
Net Inc available for Dist.	49.1	54.9	51.3	4.5	(6.5)
<b>Ratio (%)</b>					
Net Prop Inc Margin	73.3	73.1	71.9		
Dist. Payout Ratio	100.0	100.0	100.0		

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

## AIMS APAC REIT

## Income Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Gross revenue	119	123	142	161	174
Property expenses	(29.8)	(35.1)	(39.2)	(46.0)	(49.6)
<b>Net Property Income</b>	<b>89.1</b>	<b>87.5</b>	<b>103</b>	<b>115</b>	<b>124</b>
Other Operating expenses	(10.4)	(12.0)	(19.2)	(17.2)	(17.2)
Other Non Opg (Exp)/Inc	(3.7)	2.47	8.13	0.0	0.0
Associates & JV Inc	61.1	35.4	48.1	15.5	16.0
Net Interest (Exp)/Inc	(21.8)	(21.5)	(22.1)	(28.1)	(29.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>114</b>	<b>91.9</b>	<b>118</b>	<b>85.6</b>	<b>93.3</b>
Tax	(7.6)	(8.1)	(8.2)	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	(4.5)	(14.9)	(20.4)	(20.4)
<b>Net Income After Tax</b>	<b>107</b>	<b>79.4</b>	<b>95.1</b>	<b>65.2</b>	<b>72.8</b>
Total Return	85.5	47.6	89.2	65.2	72.8
Non-tax deductible Items	(44.4)	(25.8)	(43.7)	5.25	3.15
Net Inc available for Dist.	66.5	63.3	67.3	70.4	76.0
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	0.7	3.2	16.1	13.3	7.8
N Property Inc Gth (%)	13.5	(1.7)	17.9	11.8	7.8
Net Inc Gth (%)	60.4	(25.7)	19.8	(31.4)	11.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	74.9	71.4	72.5	71.5	71.5
Net Income Margins (%)	89.8	64.7	66.8	40.4	41.9
Dist to revenue (%)	56.0	51.6	47.2	43.6	43.7
Managers & Trustee's fees	8.7	9.8	13.5	10.7	9.9
ROAE (%)	11.3	8.3	9.7	6.3	6.9
ROA (%)	6.8	4.5	4.5	2.7	2.9
ROCE (%)	4.8	4.0	3.7	4.1	4.3
Int. Cover (x)	3.6	3.5	3.8	3.5	3.6

Full-year contribution from Woolworths HQ, and half-year contribution from 315 Alexandra Road assumed.

Source: Company, DBS Bank

## AIMS APAC REIT

**Balance Sheet (\$m)**

<b>FY Mar</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>
Investment Properties	1,367	1,489	1,993	2,100	2,103
Other LT Assets	256	340	381	381	381
Cash & ST Invt	20.5	11.2	21.4	16.7	18.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	5.49	6.52	8.85	8.59	9.26
Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>1,649</b>	<b>1,847</b>	<b>2,404</b>	<b>2,506</b>	<b>2,512</b>
ST Debt	162	86.0	40.6	40.6	40.6
Creditor	30.2	32.1	39.8	34.8	37.6
Other Current Liab	0.83	1.44	0.54	0.54	0.54
LT Debt	467	601	906	958	959
Other LT Liabilities	33.7	39.0	42.6	42.6	42.6
Unit holders' funds	955	1,087	1,374	1,430	1,432
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,649</b>	<b>1,847</b>	<b>2,404</b>	<b>2,506</b>	<b>2,512</b>
Non-Cash Wkg. Capital	(25.6)	(27.0)	(31.5)	(26.8)	(28.8)
Net Cash/(Debt)	(609)	(676)	(926)	(982)	(981)
<b>Ratio</b>					
Current Ratio (x)	0.1	0.1	0.4	0.3	0.4
Quick Ratio (x)	0.1	0.1	0.4	0.3	0.4
Aggregate Leverage (%)	38.2	37.2	39.4	39.8	39.8
Z-Score (X)	0.9	0.8	0.8	0.8	NA

Assumed that the c.S\$105m acquisition of 315 Alexandra Road will be 50% funded by debt.

Source: Company, DBS Bank

## AIMS APAC REIT

## Cash Flow Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Income	114	91.9	118	85.6	93.3
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(1.5)	(0.7)	1.66	0.0	0.0
Associates & JV Inc/(Loss)	(61.1)	(35.4)	(48.1)	(15.5)	(16.0)
Chg in Wkg. Cap.	1.99	2.43	4.64	(4.7)	2.05
Other Operating CF	28.6	19.7	20.7	5.25	3.15
<b>Net Operating CF</b>	<b>82.4</b>	<b>77.9</b>	<b>97.0</b>	<b>70.6</b>	<b>82.5</b>
Net Invnt in Properties	(28.6)	(136)	(485)	(108)	(3.0)
Other Invnts (net)	(36.6)	(3.2)	(7.4)	0.0	0.0
Invnts in Assoc. & JV	(1.4)	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	15.1	15.8	18.6	15.5	16.0
Other Investing CF	(9.0)	(19.6)	(5.4)	0.0	0.0
<b>Net Investing CF</b>	<b>(60.6)</b>	<b>(143)</b>	<b>(479)</b>	<b>(92.2)</b>	<b>13.0</b>
Distribution Paid	(53.2)	(57.1)	(71.0)	(70.4)	(76.0)
Chg in Gross Debt	62.4	19.6	260	51.6	0.75
New units issued	0.0	124	248	56.1	2.25
Other Financing CF	(8.6)	(8.7)	(8.7)	0.0	0.0
<b>Net Financing CF</b>	<b>0.51</b>	<b>77.6</b>	<b>429</b>	<b>37.3</b>	<b>(73.0)</b>
Currency Adjustments	(0.3)	0.45	0.11	0.0	0.0
Chg in Cash	22.0	12.9	46.2	15.8	22.5
Operating CFPS (S cts)	11.5	10.7	13.0	10.2	10.6
Free CFPS (S cts)	7.70	(8.2)	(54.6)	(5.0)	10.5

Source: Company, DBS Bank

## Target Price &amp; Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 May 21	1.41	1.60	BUY
2:	29 Jul 21	1.57	1.60	HOLD
3:	01 Oct 21	1.42	1.60	BUY

Source: DBS Bank

Analyst: Dale LAI

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

Completed Date: 28 Apr 2022 06:44:13 (SGT)

Dissemination Date: 28 Apr 2022 08:30:08 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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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

#### 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

#### 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

#### 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