

Company update

Ascendas REIT

Research Team
Singapore | Real Estate

Rating BUY (as at 5 May 2022)
 Last Close SGD 2.82
 Fair Value SGD 3.43

Solid rental reversions but higher utility costs a drag

- **1Q22 positive rental reversions of 4.6%**
- **Portfolio occupancy slightly lower at 92.6%**
- **Aggregate leverage ratio increased to 36.8% with 79.1% of borrowings hedged**

Investment thesis

Ascendas REIT (AREIT) is the largest listed industrial REIT on the Singapore Exchange based on assets under management (AUM) and market capitalisation. It has significant exposure to the business spaces (including business parks and science parks) segment, where demand has been relatively resilient, notwithstanding some impact from work-from-home trends. Besides business parks and science parks, AREIT also owns properties within the logistics, data centres, suburban offices and industrial sub-sectors. Geographically, AREIT has exposure to Singapore, the US, Europe and the UK. Its assets comprise of a diversified pool of quality tenants and it has strong sponsor support from CapitaLand Investment Limited.

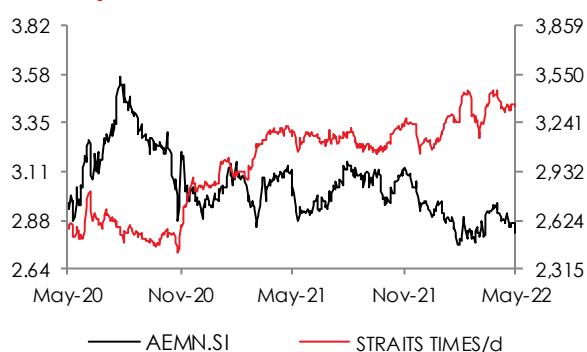
Investment summary

- **1Q22 positive rental reversions of 4.6% but occupancy was slightly lower** – AREIT provided a business update for 1Q22. No financial data was reported, but operationally, overall portfolio rental reversions came in healthy at 4.6% (4Q21: +2.9%). This was led by Australia (+16.5%), US (+14.0%) and Singapore (+3.9%). There were no lease renewals in UK/Europe. Portfolio occupancy fared slightly worse, declining by 0.6 percentage points (ppt) quarter-on-quarter (QoQ) to 92.6%. Occupancy was flat for UK/Europe (96.7%) but declined in Singapore (-0.2 ppt to 90.0%), US (-0.5 ppt to 94.0%) and Australia (-2.4 ppt to 96.8% due to two logistics properties in Brisbane and Melbourne). Regarding the topical issue of rising utility costs, we note that utilities contributed 23.8% of AREIT's FY21 property operating expenses. However, AREIT's share as the landlord accounted for ~8% of property operating expenses in FY21 as some costs can be recovered from tenants. It has currently locked in its electricity tariff rates until Jun 2022 and

Security information

Ticker	AEMN.SI
Market Cap (SGD b)	11.8
Daily turnover (SGD m)	11.2
Free Float	80%
Shares Outstanding (m)	4,198
Top Shareholder	Temasek Holdings Pte. Ltd. 20.3%

Price performance chart



Financial summary

SGD m	FY21	FY22E	FY23E
Gross revenue	1,227	1,326	1,367
Net property income	920.8	984.0	1,012
Total return after tax	957.0	630.5	645.8
Distributable income	630.0	671.1	685.2
DPU (\$ cents)	15.26	15.96	16.27

Key ratios

	FY21	FY22E	FY23E
DPU yield (%)	5.4	5.7	5.8
P/NAV (x)	1.2	1.2	1.2
ROE (%)	10.1	6.3	6.4
Gearing (D/A) (%)	34.3	34.7	35.0

Source: Refinitiv, REIT Manager, Internal estimates

expects an increase of ~50-70% for its portion of utility costs in FY22. For its colocation data centres in Europe, AREIT procures renewable energy sources and its energy price is fixed with its vendor. We believe energy costs for non-vacant data halls can be passed through to tenants.

- **Reclassification of business segments shows Life Sciences accounting for 7% of AUM** – AREIT reclassified its business operations into three key segments, namely Business Space, Logistics and Industrial and Data Centres. These accounted for 48%, 24% and 28% of its AUM of SGD16.4b, as at 31 Mar 2022, respectively. Under its Business Space segment, Life Sciences was reported as a new sub-segment, and this formed 7% of AREIT's overall AUM. According to AREIT, Life Science properties are business spaces with lab-ready specifications. Although contribution is relatively small, we believe this will be one key area of focus for management going forward.
- **Ample room for acquisitions and redevelopment projects** – In terms of financial position, AREIT's aggregate leverage ratio increased 0.9 ppt QoQ to 36.8%, while its weighted average all-in cost of debt declined from 2.2% (as at 31 Dec 2021) to 2.1%. 79.1% of AREIT's debt has been hedged. According to AREIT's sensitivity analysis, every 100 basis points increase in interest rates is expected to have a pro forma impact of 0.29 Singapore cents, or 1.9% decline in its FY21 distribution per unit (DPU). We lower our FY22 and FY23 DPU forecasts by 1.6% and 1.8%, respectively, on lower margin assumptions. After raising our cost of equity assumption from 6.4% to 6.5% due largely to a higher risk-free rate of 2.5%, our fair value estimate declines from SGD3.63 to SGD3.43.

ESG Updates

- AREIT has an ESG rating, though this was lowered in May 2020. AREIT falls into the lower scoring range in the 'Corporate Governance' category as compared to its global peers, due to key areas of concern related to the board. However, AREIT scores well in the 'Opportunities in Green Building' category. It has made efforts on tenant engagement programmes with the aim of reducing its portfolio's carbon footprint, and also making green building investments such as Green Mark certifications. According to AREIT, green financing (including green perpetual securities) accounted for ~20% of its total borrowings, as at 31 Mar 2022. It has set a long-term target for all its existing properties to achieve a minimum green rating by 2030. In the near-term, AREIT is aiming to power the common facilities' electricity usage at Nucleos, Singapore with renewable energy by 2022,

on top of its existing three properties at one-north and Singapore's first Super Low Energy (SLE) industrial building, LogisTech.

Potential catalysts

- Stronger-than-expected recovery in industrial rents.
- Accretive inorganic growth opportunities.
- Divestment of non-core assets at attractive valuations.

Investment risks

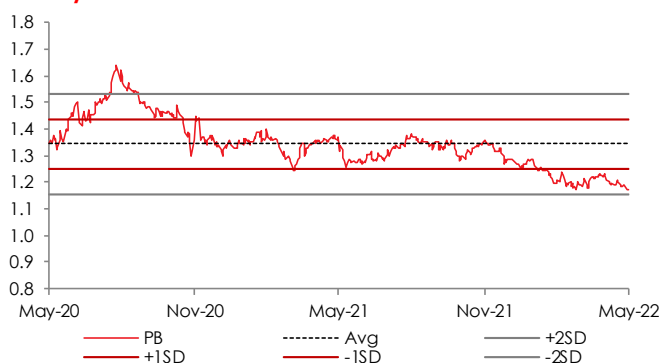
- A slowdown in macroeconomic conditions may dampen demand for industrial assets.
- Any spike in interest rates could raise the borrowing costs of AREIT.
- Depreciation in AUD, EUR, GBP and USD against SGD would impact distributions repatriated to Singapore.

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
ASCENDAS REAL ESTATE INVESTMENT TRUST (AEMN.SI)	17.8	17.3	1.2	1.2	20.8	20.1	5.7	5.9	6.8	6.8
FRASERS LOGISTICS & COMMERCIAL TRUST (FRAE.SI)	15.7	19.7	1.1	1.1	23.7	23.3	5.6	5.7	7.0	6.1
MAPLETREE INDUSTRIAL TRUST (MAPI.SI)	18.7	17.5	1.4	1.4	21.3	20.7	5.5	5.6	7.4	7.7
KEPPEL DC REIT (KEPE.SI)	18.3	17.9	1.5	1.5	19.8	18.9	5.2	5.3	8.2	8.4
MAPLETREE LOGISTICS TRUST (MAPL.SI)	20.5	20.1	1.2	1.2	22.7	22.0	5.1	5.2	5.8	6.0

Source: Refinitiv

Price/Book chart



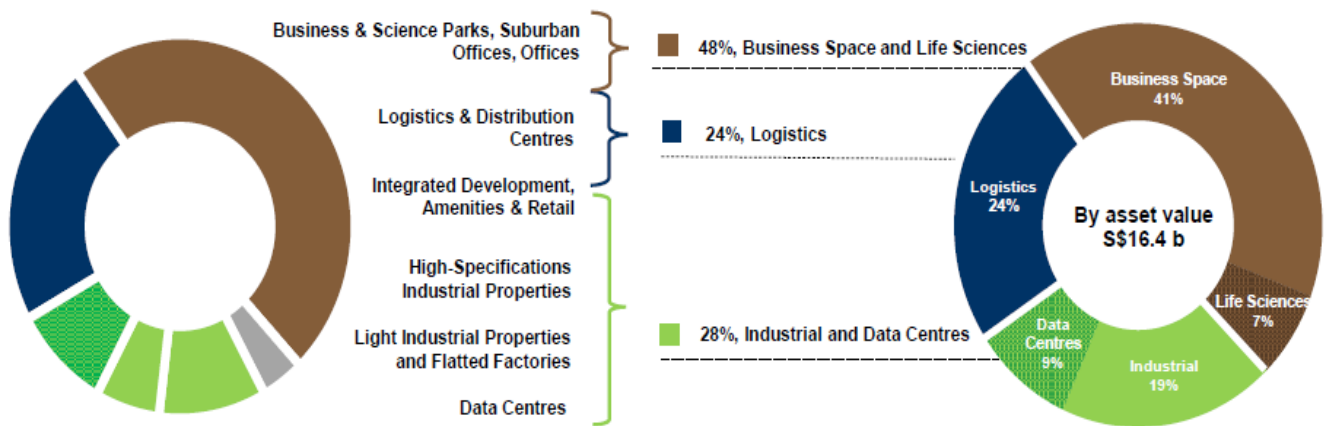
Source: Refinitiv

Dividend Yield chart



Source: Refinitiv

Exhibit 1: Reclassification of AREIT's business segments



Source: REIT Manager

Company overview (as of 31 December 2021)

Company description

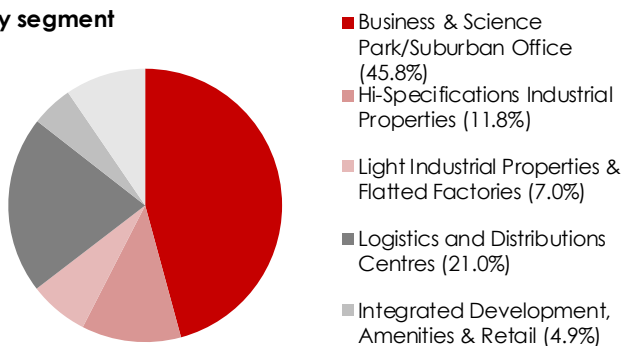
AREIT is Singapore's first and largest listed business space and industrial real estate investment trust. It was listed on the Singapore Exchange Securities Trading Limited (SGX-ST) in November 2002.

As at 31 December 2021, AREIT's investment properties under management stood at SGD16.3b. The portfolio comprises 220 properties across the developed markets of Singapore, Australia, the United States and the United Kingdom/Europe. AREIT's portfolio includes business spaces, logistics & distribution centres, industrial properties and data centres. These properties house a tenant base of more than 1,570 international and local companies from a wide range of industries and activities, including research and development, life sciences, information technology, engineering, light manufacturing, logistics service providers, electronics, telecommunications, manufacturing services and back-room office support in service industries.

AREIT is listed in several indices. These include the FTSE Straits Times Index, the Morgan Stanley Capital International, Inc (MSCI) Index, the European Public Real Estate Association/National Association of Real Estate Investment Trusts (EPRA/NAREIT) Global Real Estate Index and Global Property Research (GPR) Asia 250. AREIT has an issuer rating of 'A3' by Moody's Investors Service. It is managed by Ascendas Funds Management (S) Limited, a wholly owned subsidiary of CapitalLand Investment Limited, a leading global real estate investment manager with a strong Asia foothold.

FY21 Gross Revenue Breakdown

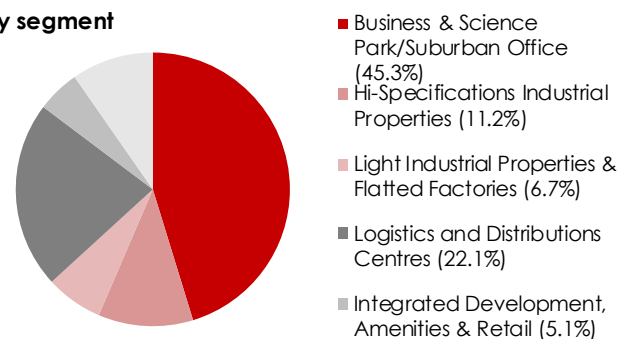
By segment



Source: REIT Manager

FY21 NPI Breakdown

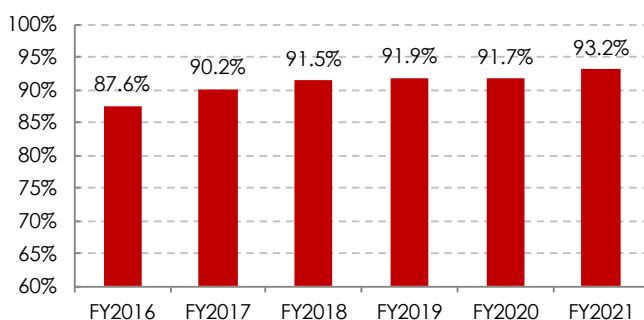
By segment



Source: REIT Manager

Occupancy trend

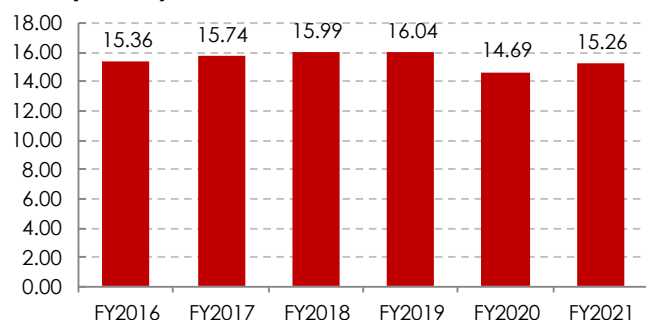
Portfolio occupancy



Source: REIT Manager

Distribution per unit

DPU (S-cents)



Source: REIT Manager

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021
Revenue	830.6	862.1	699.1	1,049.5	1,226.5
- Cost of Revenue	280.4	291.1	211.7	350.5	406.6
Gross Profit	550.2	571.0	487.3	699.0	819.9
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	-21.4	0.0	0.0	0.0	-13.7
Operating Income or Losses	571.6	571.0	487.3	699.0	833.6
- Interest Expense	107.3	109.8	121.6	164.6	158.9
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	55.9	-35.8	-42.8	40.1	-368.8
Pretax Income	408.5	496.9	408.5	494.2	1,043.5
- Income Tax Expense (Benefit)	-19.0	2.8	20.7	37.2	86.5
Income Before XO Items	427.5	494.1	387.9	457.1	957.0
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	0.0	0.0	0.0	--	--
Net Income/Net Profit (Losses)	427.5	494.1	387.9	457.1	957.0
Net Inc Avail to Common Shareholders	413.2	479.9	377.1	441.9	957.0
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	413.6	494.1	387.9	457.1	944.5
Basic Earnings per Share	0.1	0.2	0.1	0.1	0.2
Basic Weighted Av g Shares	2,851.8	2,994.7	3,231.7	3,666.1	4,127.6
Diluted EPS Before Abnormal Items	0.1	0.2	0.1	0.1	0.2
Diluted EPS Before XO Items	0.1	0.2	0.1	0.1	0.2
Diluted EPS	0.1	0.2	0.1	0.1	0.2
Diluted Weighted Av g Shares	2,851.8	2,994.7	3,231.7	3,666.1	4,127.6

Profitability Ratios

12 Months Ending	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021
Returns					
Return on Common Equity	6.82	7.48	-	5.11	9.83
Return on Assets	4.27	4.81	-	3.15	5.83
Return on Capital	9.98	9.69	8.19	6.88	6.09
Return on Invested Capital	9.84	8.93	7.07	5.66	5.08
Margins					
Operating Margin	68.82	66.23	-	66.60	67.96
Incremental Operating Margin	1.12	0.96	-	-	1.02
Pretax Margin	49.18	57.64	58.44	47.09	85.08
Income before XO Margin	51.47	57.31	55.48	43.55	78.03
Net Income Margin	49.75	55.66	53.95	42.11	78.03
Net Income to Common Margin	49.75	55.66	53.95	42.11	78.03
Additional					
Effective Tax Rate	-4.65	0.57	-	7.52	8.29
Dv d Payout Ratio	89.19	81.98	82.70	105.15	57.72
Sustainable Growth Rate	6.76	7.42	-	5.05	9.78

Credit Ratios

12 Months Ending	FY2017 31/12/2017	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021
Total Debt/EBIT	6.18	6.16	-	7.57	8.16
Net Debt/EBIT	6.14	6.12	-	7.17	7.71
EBIT to Interest Expense	5.13	5.20	-	4.25	5.16
Long-Term Debt/Total Assets	25.33	25.20	33.29	31.96	30.46
Net Debt/Equity	0.53	0.54	0.63	0.55	0.61

Source: Refinitiv

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