

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

6 Nov 2023

BUY

Last Traded Price (3 Nov 2023): S\$1.25 (STI: 3,143.66)

Price Target 12-mth: S\$1.60 (28% upside)

Analysts

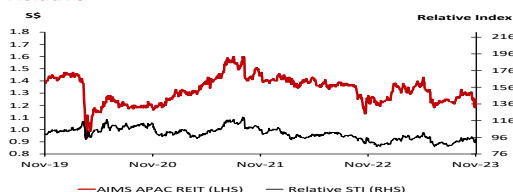
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What's New

- Rental reversions continued strong at +33.7% in 1H FYE Mar 24
- Gearing improved following recent divestment, providing AAREIT with ample headroom for AEs and acquisitions
- Planned AEs/redevelopments progressing well; work expected to commence in FY25
- Maintain BUY with a TP of S\$1.60

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2023A	2024F	2025F	2026F
Gross Revenue	167	171	174	176
Net Property Inc	123	124	126	128
Total Return	93.4	66.8	66.9	69.1
Distribution Inc	71.6	70.8	71.1	71.7
EPU (S cts)	9.45	9.19	9.18	9.45
EPU Gth (%)	(29)	(3)	0	3
DPU (S cts)	9.94	9.75	9.75	9.80
DPU Gth (%)	5	(2)	0	1
NAV per shr (S cts)	137	137	137	137
PE (X)	13.2	13.6	13.6	13.2
Distribution Yield (%)	8.0	7.8	7.8	7.8
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	38.1	38.0	38.0	38.0
ROAE (%)	6.8	6.7	6.7	6.9

Distn. Inc Chng (%)		0	0	0
Consensus DPU (S cts)		9.50	9.60	9.70
Other Broker Recs:		B: 3	S: 0	H: 0

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

Balance sheet well-positioned for next growth phase

Investment Thesis

Potential for further organic growth in portfolio. AIMS APAC REIT (AAREIT) has a proven track record in carrying out AEs and redevelopment projects on its existing portfolio to drive organic income growth. Within its current portfolio are several properties that have untapped plot ratio and could generate up to 2.0m sq. ft. of additional GFA to drive further earnings and valuations growth.

Accretive acquisitions and proactive portfolio rejuvenation. Over the years, AAREIT has embarked on several accretive acquisitions that have led to earnings growth. The REIT has also been proactive in rejuvenating its portfolio and carrying out AEs to drive higher rents. The most recent AEs have not only led to higher revenues through increased NLA, but also improved NPI margins through conversions of multi-tenanted assets to master-leases.

Balanced lease structure. Master-leases makes up almost half of all leases within AAREIT's portfolio. In addition to providing long-term income stability, almost all these master-leases have in-built rental escalations to provide earnings growth. The remaining multi-tenanted leases provide AAREIT with the flexibility to take advantage of higher rents, especially as most are from the logistics and warehouse segment, which currently see strong rental growth.

Maintain BUY with higher TP of S\$1.60. We remain positive on AAREIT's solid portfolio operating metrics and expect to see further organic income growth through their proactive management of its portfolio. Further positive rental reversions and conversions to master-leases will support improvement in NPI margins.

Key Risks

Key risks include the lack of acquisitions and elevated costs that make it prohibitive for AAREIT to embark on AEI projects and unlock its unutilised GFA.

At A Glance

Issued Capital (m shrs)	720
Mkt. Cap (S\$m/US\$m)	900 / 665
Major Shareholders (%)	
ESR CAYMAN LTD	11.4
Wang George	10.8
Chan Wai Kheong	5.2
Free Float (%)	72.6
3m Avg. Daily Val (US\$m)	1.5
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

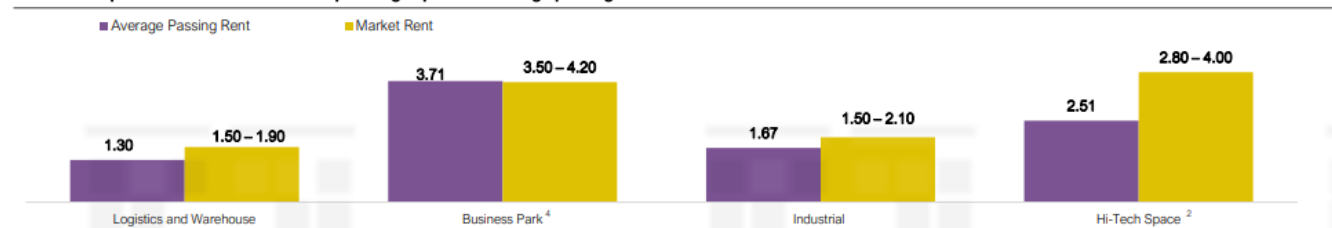
Balance sheet positioned for next phase of growth

Strong double-digits positive 2Q24 rental reversions. AAREIT continues to demonstrate impressive performance with strong double-digit positive rental reversions, marking a remarkable +33.7% increase in 2Q24. This robust performance was primarily driven by the outstanding performance from the logistics and warehouse segment, which saw a +33.9% increase, while the industrial segment maintained healthy positive reversions at +7.3%. These strong rental reversions in the first two quarters of the financial year contributed to an overall positive rental reversion of +37.7% for 1H24.

Looking ahead, with most lease expiries in FY24F coming from the logistics and warehouse segment (representing 10.6% of 13.0%), we anticipate AAREIT will continue to report healthy positive rental reversions due to the ongoing strong growth in rents. Furthermore, the portfolio's occupancy rate remains stable quarter-on-quarter at 98.1%.

Further positive rental reversions expected

Potential for positive rental reversions for upcoming expiries as average passing rents < market rents ^{1,3}



Source: AIMS APAC REIT

Gearing improved marginally to 32.1%; 77% loans hedged to fixed rates. AAREIT's gearing has shown a marginal improvement, reaching 32.1% in 2Q24. The 0.8 ppt q-o-q improvement was primarily attributed to the completion of the divestment of 541 Yishun Industrial Park A for S\$12.9 million. Like its peers, AAREIT also experienced a slight uptick in borrowing costs, reaching 4.0% on a YTD basis. This suggests that financing costs have likely increased by approximately 30 bps q-o-q.

However, AAREIT has a substantial 77% of its loans hedged to fixed rates, and there are no loans due for refinancing until 2Q25. Consequently, we anticipate AAREIT's borrowing costs to remain relatively stable for the remainder of the year. According to AAREIT's sensitivity analysis, a 50 bps increase in interest rates is expected to have a c.1.1% impact on DPU.

1H24 DPU of 4.65Scts slightly below our estimates. 1H24's DPU of 4.65Scts is slightly below our estimates, constituting around 48% of our full-year expectations. The slight miss in earnings can be attributed to the fact that AAREIT's unit base expanded following the S\$100m equity fund raising exercise in May 2023, leading to some drag on DPU.

Nonetheless, it's worth noting that AAREIT typically retains some profits during the year for contingencies and capital management needs, distributed in the final quarter if left unutilized. Consequently, we maintain our confidence that AAREIT is on track to meet our FY24 DPU projections of 9.75Scts.

Debt headroom exceeding S\$280m. AAREIT currently maintains a very healthy gearing ratio of only 32.1%, providing a debt headroom in excess of S\$280 million (before gearing reaches 40%). Previously, AAREIT had indicated the identification of two AEs and a potential redevelopment project. However, we are yet to receive any updates on the progress of these initiatives. As these AEs and redevelopment projects are still in the planning stages, we anticipate gearing to remain relatively stable for the coming quarters.

AEI and redevelopment plans progressing well. The plans for the three AEs and redevelopment projects are advancing positively. We have learned that one of the major AEs involves the conversion of a multi-tenanted property into a master-let asset, with a Letter Of Intent already signed with the master-tenant. Given that these AEs and redevelopment plans are relatively substantial and require extensive planning and approvals, AAREIT does not expect these projects to commence within the current year. They are likely to take place in FY25.

Our views

We continue to remain positive on AAREIT given the **continued strong rental reversions** and **healthy operating metrics**. With the bulk of expiries for the rest of FY24F coming from the logistics and warehouse segment, we believe that AAREIT will be able to **continue rental growth** within its portfolio, potentially **maintaining the double digit positive rental reversions** seen in the first half of FY24. One of its master-leases with KWE-Kintetsu is due to expire in the coming quarter, and we understand that discussions are

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going well, and the tenant is expected to renew their lease. Although we do not expect rental reversions to be as high as typical leases (given the sheer size of the lease), AAREIT is confident that they will be able to achieve healthy positive rental reversion for the space.

Despite the anticipated drag on DPU due to the enlarged unit base, we believe that AAREIT will be on track to deliver an FY24F DPU of 9.75Scts due to the strong rental growth within its portfolio. Furthermore, AAREIT expects positive rental reversions to continue, and the hedging of their AUD income would provide for relatively stable earnings from its Australian portfolio.

Therefore, we maintain our **BUY** recommendation with a TP of **S\$1.60**. The current share price implies a very attractive **forward yield of 7.8%**.

Company Background

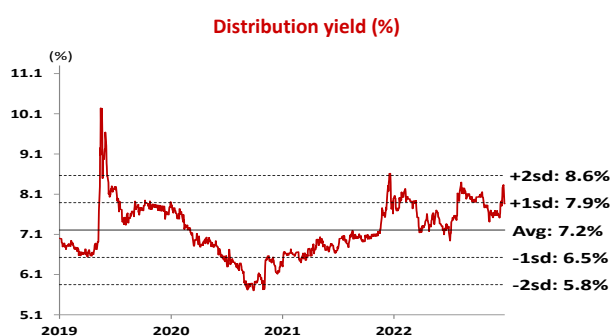
AIMS APAC REIT (AAREIT) is a growing industrial real estate investment trust listed on the mainboard of the Singapore Exchange since April 2007. AAREIT's principal investment objective is to deliver secure and stable distributions.

Interim Income Statement (S\$m)

FY Mar	1H2023	2H2023	1H2024	% chg yoy	% chg hoh
Gross revenue	83.2	84.2	86.8	4.4	3.2
Property expenses	(22.1)	(22.8)	(22.5)	2.2	(1.2)
Net Property Income	61.1	61.4	64.3	5.1	4.8
Other Operating expenses	(8.8)	(13.5)	(8.5)	(3.5)	(37.3)
Other Non Opg (Exp)/Inc	3.68	(0.1)	(1.6)	nm	nm
Associates & JV Inc	11.5	4.50	7.45	(35.4)	65.5
Net Interest (Exp)/Inc	(15.4)	(17.6)	(17.5)	(13.8)	0.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	52.2	34.7	44.1	(15.4)	27.2
Tax	0.67	1.08	(0.1)	nm	nm
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	52.9	35.8	44.0	(16.7)	23.0
Total Return	61.9	52.0	41.3	(33.3)	(20.6)
Non-tax deductible Items	(11.2)	3.27	14.8	nm	352.0
Net Inc available for Dist.	50.7	55.3	56.0	10.5	1.4
Ratio (%)					
Net Prop Inc Margin	73.5	72.9	74.0		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Distribution Yield and PB band



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



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

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Income Statement (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Gross revenue	142	167	171	174	176
Property expenses	(39.2)	(44.9)	(46.9)	(47.8)	(48.5)
Net Property Income	103	123	124	126	128
Other Operating expenses	(19.2)	(22.3)	(18.2)	(18.2)	(18.2)
Other Non Opg (Exp)/Inc	8.13	3.61	0.0	0.0	0.0
Associates & JV Inc	48.1	16.0	16.2	16.7	17.2
Net Interest (Exp)/Inc	(22.1)	(33.0)	(34.5)	(37.2)	(37.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	118	86.9	87.2	87.3	89.5
Tax	(8.2)	1.75	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	(14.9)	(20.5)	(20.4)	(20.4)	(20.4)
Net Income After Tax	95.1	68.1	66.8	66.9	69.1
Total Return	89.2	93.4	66.8	66.9	69.1
Non-tax deductible Items	(43.7)	(19.4)	4.07	4.15	2.57
Net Inc available for Dist.	67.3	71.6	70.8	71.1	71.7
Growth & Ratio					
Revenue Gth (%)	16.1	17.6	2.0	1.9	1.4
N Property Inc Gth (%)	17.9	18.7	1.0	1.9	1.4
Net Inc Gth (%)	19.8	(28.3)	(2.0)	0.2	3.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	72.5	73.2	72.5	72.5	72.5
Net Income Margins (%)	66.8	40.7	39.1	38.5	39.2
Dist to revenue (%)	47.2	42.8	41.5	40.8	40.6
Managers & Trustee's fees	13.5	13.3	10.7	10.5	10.3
ROAE (%)	9.7	6.8	6.7	6.7	6.9
ROA (%)	4.5	2.9	2.9	2.9	2.9
ROCE (%)	3.7	4.3	4.6	4.7	4.8
Int. Cover (x)	3.8	3.0	3.1	2.9	2.9

Financing costs expected to continue creeping up.

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Mar	1H2022	2H2022	1H2023	2H2023	1H2024
Gross revenue	65.3	77.1	83.2	84.2	86.8
Property expenses	(17.5)	(21.7)	(22.1)	(22.8)	(22.5)
Net Property Income	47.7	55.5	61.1	61.4	64.3
Other Operating	(6.0)	(13.2)	(8.8)	(13.5)	(8.5)
Other Non Opg (Exp)/Inc	1.12	7.01	3.68	(0.1)	(1.6)
Associates & JV Inc	27.3	20.9	11.5	4.50	7.45
Net Interest (Exp)/Inc	(10.2)	(11.9)	(15.4)	(17.6)	(17.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	59.9	58.3	52.2	34.7	44.1
Tax	(4.4)	(3.8)	0.67	1.08	(0.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	55.5	54.4	52.9	35.8	44.0
Total Return	70.6	33.5	61.9	52.0	41.3
Non-tax deductible Items	(15.7)	17.8	(11.2)	3.27	14.8
Net Inc available for Dist.	54.9	51.3	50.7	55.3	56.0
Growth & Ratio					
Revenue Gth (%)	1	18	8	1	3
N Property Inc Gth (%)	0	16	10	0	5
Net Inc Gth (%)	0	(2)	(3)	(32)	23
Net Prop Inc Margin (%)	73.1	71.9	73.5	72.9	74.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

DI has increased h-o-h, but enlarged unit base has led to a drag on DPU.

Balance Sheet (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Investment Properties	1,993	1,957	1,960	1,963	1,966
Other LT Assets	381	345	345	345	345
Cash & ST Invt	21.4	13.2	9.66	10.2	10.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	8.85	7.56	9.09	9.26	9.39
Other Current Assets	0.0	13.3	13.3	13.3	13.3
Total Assets	2,404	2,336	2,337	2,341	2,345
ST Debt	40.6	5.35	5.35	5.35	5.35
Creditor	39.8	37.6	35.6	36.2	36.7
Other Current Liab	0.54	0.25	0.25	0.25	0.25
LT Debt	906	884	884	885	886
Other LT Liabilities	42.6	42.1	42.1	42.1	42.1
Unit holders' funds	1,374	1,367	1,370	1,372	1,374
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,404	2,336	2,337	2,341	2,345
Non-Cash Wkg. Capital	(31.5)	(17.0)	(13.4)	(13.9)	(14.3)
Net Cash/(Debt)	(926)	(876)	(880)	(880)	(881)
Ratio					
Current Ratio (x)	0.4	0.8	0.8	0.8	0.8
Quick Ratio (x)	0.4	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	39.4	38.1	38.0	38.0	38.0

Source: Company, DBS Bank

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Cash Flow Statement (S\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Pre-Tax Income	118	86.9	87.2	87.3	89.5
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(1.7)	(0.3)	0.0	0.0	0.0
Associates & JV Inc/(Loss)	(48.1)	(16.0)	(16.2)	(16.7)	(17.2)
Chg in Wkg.Cap.	4.64	(1.6)	(3.6)	0.50	0.37
Other Operating CF	24.1	40.6	4.07	4.15	2.57
Net Operating CF	97.0	110	71.5	75.3	75.3
Net Invnt in Properties	(485)	0.0	(3.0)	(3.0)	(3.0)
Other Invnts (net)	(7.4)	(3.1)	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	18.6	17.6	16.2	16.7	17.2
Other Investing CF	(5.4)	(7.9)	0.0	0.0	0.0
Net Investing CF	(479)	6.60	13.2	13.7	14.2
Distribution Paid	(71.0)	(69.3)	(70.8)	(71.1)	(71.7)
Chg in Gross Debt	260	3.07	0.10	0.82	1.54
New units issued	248	0.0	2.90	2.18	1.46
Other Financing CF	(8.7)	(8.9)	0.0	0.0	0.0
Net Financing CF	429	(75.1)	(67.8)	(68.1)	(68.7)
Currency Adjustments	0.11	(1.3)	0.0	0.0	0.0
Chg in Cash	46.2	39.9	16.9	20.9	20.8
Operating CFPS (S cts)	13.0	15.4	10.3	10.3	10.2
Free CFPS (S cts)	(54.6)	15.2	9.43	9.92	9.89

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	08 May 23	1.43	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

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