



AIMS AMP (AAREIT SP)

Share Price: SGD1.35	MCap (USD): 606M	Singapore
Target Price: SGD1.47 (+9%)	ADTV (USD): 0.5M	REITs

HOLD

 (New)

Floor Area to Unearth

- Fourth-largest industrial SREIT with 60% rental exposure to warehouses, 20% to factories & 20% to business parks.
- Forecast FY3/16-18 DPU growth of 1.4%/1.4%/5% on rent escalations & redevelopment project. Potential to increase NLA by 11% from unlocked plot ratios.
- Initiate with HOLD, as no immediate catalysts. TP of SGD1.47 based on 7.75% yield target applied to FY3/17 DPU. Risks include 22% exposure to single tenant, CWT.

Unutilised plot ratio

Sponsored by AMP Capital, a leading Australian property investor and the AIMS Financial Group, AAREIT has 26 properties with 6.1m sf of net lettable area (NLA). It has c.60% exposure to warehouses by rental income and 20% to business parks. We are more positive on these sub-sectors than factories, where it has 20% exposure. Over 2016-2018, factory supply is estimated to be 1.2x historical demand vs 1.0x for warehouses and 0.5x for business parks.

We expect FY3/16-18 DPU to grow 1.4%/1.4%/5%, from rent escalations for master leases (49% of its rental income) followed by the redevelopment of a warehouse, which will contribute in FY3/18. Moreover, AAREIT has the potential to expand its NLA by 11% at existing properties, which have unutilised plot ratios. It has 14% exposure to Australia via its 49% ownership of a business park, which is on long-term lease to Optus. The property was introduced to it by its sponsors and Australia remains its desired market.

After redevelopment, AAREIT's gearing is expected to stay low at 33.2% (30.9% in 2QFY3/16). This affords it debt headroom of SGD320m to pursue other opportunities.

Initiate with HOLD

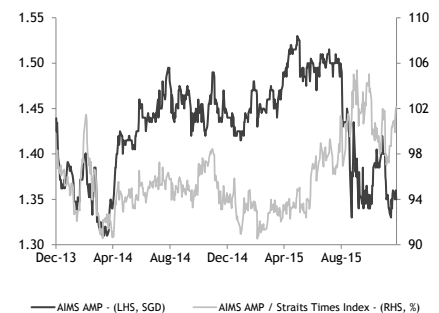
We initiate coverage with HOLD and a TP of SGD1.47, based on a 7.75% yield target on FY3/17 DPU. Risks include its 22% exposure to single tenant CWT at its major property, 20 Gulway.

FYE Mar (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	108.2	115.4	122.0	124.9	134.0
Net property income	71.9	80.0	81.0	82.8	87.9
Distributable income	55.7	66.4	71.0	72.3	76.3
DPU (cts)	10.5	11.1	11.2	11.4	11.9
DPU growth (%)	(1.8)	5.1	1.4	1.4	5.0
Price/DPU(x)	12.8	12.2	12.0	11.9	11.3
P/BV (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	7.8	8.2	8.3	8.4	8.8
ROAE (%)	7.3	7.4	7.5	7.6	8.1
ROAA (%)	4.6	4.8	5.0	5.0	5.2
Debt/Assets (x)	0.3	0.3	0.3	0.3	0.3

Key Data

52w high/low (SGD)	1.53/1.33
3m avg turnover (USDm)	0.5
Free float (%)	78.2
Issued shares (m)	635
Market capitalization	SGD856.8M
Major shareholders:	
-Dragon Pacific Assets Ltd.	11.3%
-APG Asset Management NV	8.8%
-AIMS Fund Management Ltd.	7.5%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(4.3)	(2.9)	(6.6)
Relative to index (%)	2.2	0.1	9.2

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	1.47	1.64	(10.2)
2016 DPU (cts)	11.2	11.9	(5.4)
2017 DPU (cts)	11.4	11.9	(4.7)

Source: FactSet; Maybank

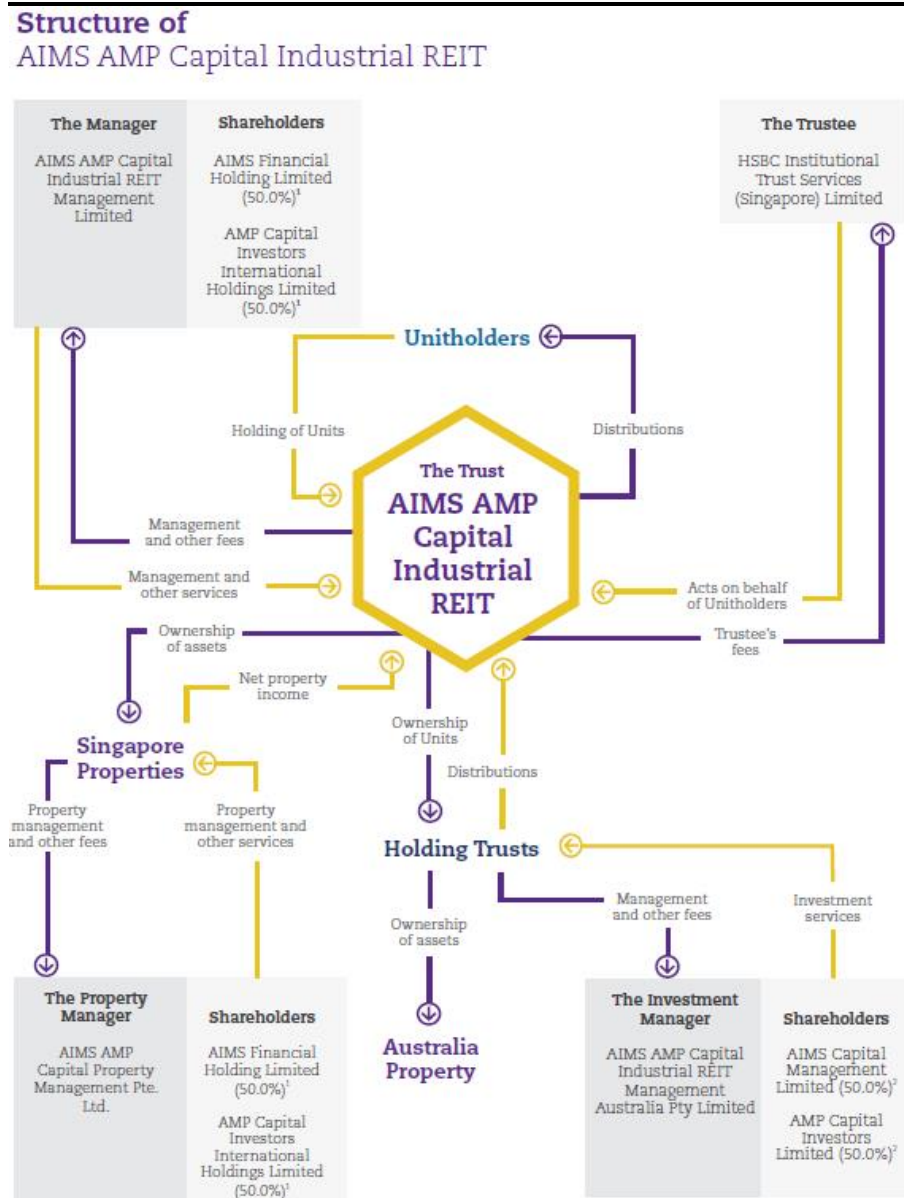
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About AAREIT

AAREIT is the fourth-largest industrial REIT listed on the SGX by market cap: SGD0.9b compared to Areit at SGD5.5b (HOLD, TP SGD2.28), MINT at SGD2.7b (HOLD, TP SGD1.49) and MLT at SGD2.5b (NR). It is sponsored by AMP Capital and the AIMS Financial Group.

- AMP Capital (owns 9.7% of AAREIT) is one of Australia’s leading institutional property investors. It is part of the AMP Group, among Australia’s largest retail and corporate pension providers and one of the region’s most significant investment managers.
- AIMS Financial Group (7.7%) is a privately-held Australian, non-bank financial-service and investment group with a track record in Australia’s mortgage and securitisation markets. AIMS was founded in 1991 by Australian businessman, George Wang, who remains in control of it.
- The manager of the REIT is a 50:50 JV by its two sponsors.

Figure 1: AAREIT’s structure



Source: Company

Portfolio

AAREIT has 26 properties with 6.1m sf of NLA.

1. By gross rental income, AAREIT has 60% exposure to warehouses, 20% to factories and 20% to business parks.
2. By region, it has 86.1% exposure to Singapore and 13.9% to Australia, through its 49% associate, Optus Centre, in New South Wales.
3. 50.8% of its rental income comes from multi-tenanted leases, with typical tenures of three years. The remaining 49.2% comes from master leases which tend to be longer with annual step-ups.
4. Lease expiry profile is in-line with peers: 7.8%/19.5%/27.4% over FY3/16-18 (Aareit: 14%/21%/20.5%; MINT: 5.5%/23.1%/31.6%; Cache: 2%/15%/3%).

Figure 2: Contributions to gross rental income

- Red highlights indicate master leases up for renewal that year.

- AAREIT has 80% exposure to warehouses and business parks. These have much more favourable supply/demand dynamics than factories (see Fig.3)

As % of Gross Rental Income	Location	Type	FY3/16E	FY3/17E	FY3/18E	FY3/19E	Remarks
Master Leases:							
20 Gulway	SG	Warehouse	21.8%	21.8%	21.1%	21.1%	2% pa step-up. Of 154k sqm: 37k sqm expires in Dec 2016, 28k sqm in May 2017, 27k sqm in Jul 2017, 25k sqm in Dec 2017, 71k sqm in Nov 2019
3 Tuas Ave 2	SG	Factory	1.7%	1.8%	1.7%	1.7%	5% step-up in years: 3, 5, 7, 9. Expires 2024.
8 & 10 Tuas Ave 20	SG	Warehouse	1.0%	1.1%	1.0%	1.0%	Flat rate. Expires mid-2016.
541 Yishun	SG	Factory	1.3%	1.2%	1.3%	1.2%	7% step-up in years: 4, 7, 10. Expires Oct 2019.
2 AMK St 65	SG	Factory	1.2%	1.3%	1.2%	1.2%	7.5% step-up in years: 4, 7, 10. Expires Apr 2017.
8 Senoko South	SG	Factory	1.0%	1.0%	1.0%	0.9%	6% step-up in years: 4, 7. Expires Apr 2016.
26 Tuas Ave 7	SG	Factory	1.0%	1.0%	1.0%	1.0%	5% pa, expires Apr 2017; step-up 7% every 2 years, then expires Apr 2022.
30 & 32 Tuas West Rd	SG	Warehouse	0.0%	0.0%	3.6%	3.6%	Redevelopment to complete in FY3/18. 2% annual step-up
1A Int'l Biz Park	SG	Biz Park	6.1%	6.2%	5.9%	6.1%	5% step-up in years: 3, 5, 7. Expires Nov 2019.
Optus Centre	AU	Biz Park	13.9%	14.0%	13.7%	13.8%	3% pa step-up. Property was introduced by sponsors to AAREIT. Transacted NPI yield c.7.8%.
All Master Leases:			49.0%	49.4%	51.4%	51.7%	
Multi-Tenanted Properties	SG	See remarks	51.0%	50.6%	48.6%	48.3%	27.5% factories, 72.5% warehouses
% Lease Expiry							
- Master Leases			0.0%	7.3%	13.2%	0.0%	
- Multi-Tenanted Leases			7.8%	12.2%	14.2%	9.0%	
% Factories							
			20.2%	20.2%	19.5%	19.4%	
% Business Parks							
			20.0%	20.3%	19.6%	19.9%	
% Warehouses							
			59.8%	59.5%	60.9%	60.7%	

Source: Company, Maybank KE

Sector view:

Figure 3: Supply of warehouses and business parks to be tighter than for factories

Industrial: Supply, Demand, Vacancies & Rents	2011	2012	2013	2014	2015E	2016E	2017E	2018E	avg. 2016-18
All Industrial Types:									
Net Supply / Net Absorption (x)	0.7	1.3	1.7	1.4	1.3	2.2	0.9	0.4	1.2
Net Supply (Total, m sf)	8.2	11.4	15.6	21.1	18.7	25.5	10.8	4.7	
Net Absorption (Total, m sf)	11.1	9.1	9.3	14.8	14.1	11.7	11.7	11.7	
Vacancies (%)	6.9	6.7	7.5	9.0	9.6	11.8	11.4	10.0	
Factories:									
Net Supply / Net Absorption (x)	1.0	1.1	1.7	1.8	1.6	2.6	0.9	0.2	1.2
Net Supply (Total, m sf)	6.3	7.2	11.7	11.8	11.8	17.6	6.1	1.1	
Net Absorption (Total, m sf)	6.1	6.6	6.9	6.4	7.3	6.7	6.7	6.7	
Vacancies (%)	6.3	6.3	7.0	8.5	9.4	11.9	11.5	10.1	
Rents (index, year avg.)	88.9	96.2	102.4	103.8	101.3	98.9	98.8	100.8	
- %YoY	19.6%	8.2%	6.4%	1.4%	-2.4%	-2.4%	-0.1%	2.1%	-0.1%
- % market rent reversions	9.5%	34.0%	37.7%	16.7%	5.3%	-3.4%	-4.8%	-0.4%	-2.9%
Warehouses:									
Net Supply / Net Absorption (x)	0.5	1.8	2.1	1.0	1.1	1.6	1.2	0.1	1.0
Net Supply (Total, m sf)	1.7	2.8	3.9	7.3	4.8	6.2	4.7	0.4	
Net Absorption (Total, m sf)	3.7	1.6	1.9	7.5	4.4	3.8	3.8	3.8	
Vacancies (%)	6.8	5.9	7.6	9.5	9.4	11.2	11.5	8.2	
Rents (index, year avg.)	87.8	94.1	101.2	100.2	99.0	97.9	97.2	98.8	
- %YoY	19.3%	7.2%	7.5%	-1.0%	-1.1%	-1.1%	-0.7%	1.6%	-0.1%
- % market rent reversions	4.1%	32.5%	37.4%	14.1%	5.2%	-3.2%	-2.9%	-0.2%	-2.1%
Business Parks:									
Net Supply / Net Absorption (x)	0.2	1.6	0.1	2.3	0.7	1.5	0.0	0.0	0.5
Net Supply (Total, m sf)	0.2	1.4	0.0	2.0	1.8	1.8	0.0	0.0	
Net Absorption (Total, m sf)	1.2	0.9	0.6	0.9	2.4	1.2	1.2	1.2	
Vacancies (%)	17.2	19.1	15.9	20.2	15.5	16.9	11.6	6.2	
Rents (index, year avg.)	96.3	100.2	103.3	106.2	105.6	104.5	105.5	108.0	
- %YoY	3.6%	4.1%	3.1%	2.8%	-0.6%	-1.0%	1.0%	2.4%	0.8%
- % market rent reversions	-	-	11.1%	10.3%	5.3%	1.1%	-0.6%	2.3%	0.9%

Source: URA, Maybank KE

1. We expect factory supply to peak in 2016 at 2.6x annual historical demand, before tapering off to 0.9x and 0.2x thereafter. Over three years, supply should equal 1.2x historical demand. Rent reversions will likely be under pressure in 2016-17 (-3.4%, -4.8%), before stabilising in 2018 (-0.4%).
2. Warehouse supply is tighter. Could peak next year at 1.6x and taper off to 1.2x, then to 0.1x. Over three years, equal to 1.0x historical demand. Rent reversions to be under pressure in 2016-17 (-3.2%, -2.9%) and stabilise in 2018 (-0.2%).

3. Business-park supply to peak at 1.5x in 2016. No new supply in 2017-18. Over three years, should form 0.5x historical demand. We expect reversions to soften in 2016-17 (-1.1%, -0.6%), before climbing again in 2018 (2.3%).
4. Industrial REITs should perform the best in 2015. 9M15 revenue grew 7.4% vs 4.7% for retail and 4.1% for office. DPU grew 5.3% vs 3% and -0.9% respectively. Occupancy increased on average by 0.8ppts vs declines for retail and office.
5. We favour industrial REITs as total supply is expected to be 1.2x annual demand over 2016-2018. Retail supply is expected to be 2.0x and for office, 1.6x ([see our SREIT report dated 30 Nov 2015](#)).

Figure 4: Industrial outperforming retail and office in revenue, DPU and occupancy

	Revenue %YoY			DPU Growth %YoY			Occupancy (%)			
	1Q15	2Q15	3Q15	1Q15	2Q15	3Q15	4Q14	1Q15	2Q15	3Q15
Industrial REITs										
AREIT	11.0	10.6	10.8	4.5	5.5	6.3	86.8	87.7	88.8	89.0
MINT	5.6	4.1	6.2	5.6	8.8	7.3	90.8	90.2	93.5	93.8
CACHE	1.6	3.7	11.3	0.3	(0.3)	0.0	97.9	99.1	98.3	95.2
AAREIT	2.1	10.7	10.6	16.3	7.8	1.1	95.9	95.8	96.1	96.5
	Average 9M:		7.4	Average 9M:		5.3	Avg. %pt chg 4Q14 to 3Q15:		0.8	
Retail REITs										
CT	1.6	(2.9)	(1.8)	4.3	0.7	9.6	98.8	97.2	96.4	96.8
MCT	3.5	1.6	1.9	2.4	3.1	2.5	99.5	95.7	95.5	96.6
FCT	15.9	14.3	1.7	2.9	0.5	2.7	96.4	97.1	96.5	96.0
SGREIT	(2.7)	6.9	16.8	1.6	3.2	3.1	96.1	96.1	96.1	98.1
	Average 9M:		4.7	Average 9M:		3.0	Avg. %pt chg 4Q14 to 3Q15:		(0.8)	
Office REITs										
CCT	6.5	5.0	2.9	1.9	0.5	2.4	96.8	97.0	98.0	96.4
KREIT	(9.4)	(9.3)	(11.4)	(13.7)	(9.5)	(8.1)	100.0	99.3	99.3	98.5
SUN	12.9	19.6	20.4	0.0	10.3	8.3	100.0	99.6	99.0	98.9
	Average 9M:		4.1	Average 9M:		(0.9)	Avg. %pt chg 4Q14 to 3Q15:		(1.0)	

Source: Company, Maybank KE

DPU to grow organically

1. FY3/16-17 DPU is expected to grow 1.4% annually, driven by rental step-ups for its master leases, partly offset by interest costs on SGD41.7m of new debt taken for the redevelopment of 30 & 32 Tuas West Road.
2. We assume that master leases due for expiry will be renewed. For properties due for renewal, see Figure 2.

3. AAREIT's leasing this year has been commendable. Portfolio occupancy improved sequentially in the last three quarters despite a challenging leasing market: 95.8%/96.1%/96.5%, driven mainly by improvements in its multi-tenanted portfolio.
4. But in line with the market, rent reversions were sacrificed, down to 5.3% in FY3/16 from 9.1% in FY3/15 and 16.8% in FY3/14.
5. For FY3/16, we expect multi-tenanted occupancy to reach 93.6%, from 93.2% in FY3/15. For FY3/17-18 we expect multi-tenanted and overall occupancy to be defended but not increased, as we expect 2016 supply to spill-over to 2017. Rent reversions are likely to continue to drift down, to lower single digits.
6. But FY3/18 DPU is expected to jump 5% with the completion of 30 & 32 Tuas West Road and the usual master-lease rental step-ups.

Figure 5: DPUs to grow 1.4-5% in FY3/16-18

	FY3/15	FY3/16E	FY3/17E	FY3/18E
Master Leases (incl. Assoc.)				
NLA (m sf)	2.2	2.4	2.4	2.7
Occupancies (%)	100.0	100.0	100.0	100.0
Rental Inc. (SGD m)	49.8	52.8	54.4	59.6
NPI (SGD m)	47.3	50.1	51.7	56.6
%YoY	63.3%	6.0%	3.1%	9.6%
Multi-Tenanted				
NLA (m sf)	3.8	3.7	3.7	3.7
Occupancies (%)	93.2	93.6	93.6	93.6
Rental Inc. (SGD m)	55.6	54.9	55.6	56.4
NPI (SGD m)	45.7	45.1	45.7	46.3
%YoY	3.5%	-1.3%	1.4%	1.3%
TOTAL				
NLA (m sf)	5.9	6.1	6.1	6.4
Occupancies (%)	96.0	96.4	96.4	96.5
Rental Inc.* (SGD m)	105.4	107.6	110.1	116.0
NPI, incl. assoc. (SGD m)	93.0	95.2	97.4	103.0
%YoY	27.2%	2.4%	2.3%	5.7%
* Rental inc. is less than revenue as the latter includes property expenses claimable from tenants.				
DPU (\$ cts)	11.1	11.2	11.4	11.9
%YoY	5.1%	1.4%	1.4%	5.0%

Source: Company, Maybank KE

Figure 6: Redevelopment of 30 & 32 Tuas West Road
 Scheduled for completion in FY3/18, with CWT as tenant



Source: Company

Figure 7: Capex for the project is SGD41.7m.
 Project yield is estimated to be 9.4%

30 & 32 Tuas West Road – Fact Sheet

	Prior to redevelopment	Post redevelopment
Property	Two three-storey detached industrial buildings	Five-storey ramp-up warehouse
Valuation	S\$14.1 million ¹	S\$60.7 million ²
Annual Rental Income	S\$0.82 million ³	S\$4.15 million (when completed)
Plot Ratio	1.15	2.07
Land Area	138,801 sqft	138,801 sqft
Gross Floor Area (GFA)	159,717 sqft	Approx. 287,866 sqft
Land Tenure	30+30 years lease wef 1 Jan 96	30+30 years lease wef 1 Jan 96
Lease Term	Multi-tenanted	Master lease

1. Based on Knight Frank Pte Ltd's valuation dated 31 March 2015.
 2. Based on Colliers International Consultancy and Valuation (Singapore) Pte Ltd's valuation dated 20 May 2015 on an "as-if-complete" basis.
 3. Annual Rental Income for FY2015.

Source: Company

Untapped GFA potential

Figure 8: 10 properties with unutilised plot ratios

Potential opportunities within AA REIT's portfolio

A large proportion of current portfolio remains under-utilised; with select organic opportunities available to AA REIT

Potential untapped GFA
 ≈ 801,334 sqft

Source: Company

1. After the redevelopment of 30 & 32 Tuas West Road, AAREIT's NLA is expected to be 6.4m sf. This has potential to increase a further 11% as AAREIT has a 801k sf of GFA that can be unlocked (translates into c.691k sf NLA, assuming 86% efficiency).
2. Management is unlikely to participate in speculative redevelopment. It would first secure a tenant before project commitment, much like how it executed its 30 & 32 Tuas West Road project.
3. As construction cost averages SGD150psf, AAREIT could redevelop its entire 801,334 sf of untapped GFA for SGD299m: SGD150psf x 1.2m sf GFA for 10 existing properties to be redeveloped +

SGD150psf x 0.8m sf new GFA. This would only push up its gearing to 44%, still under the 45% limit. This calculation excludes revaluation gains.

Capital management

Figure 9: Debt profile

S&P credit rating: BBB-	FY3/15	FY3/16E	FY3/17E	FY3/18E
Aggregate Leverage (%)	31.4	31.9	33.2	33.2
All-in Financing Cost (%)	4.53	4.20	4.20	4.40
Interest Cost % Fixed	86.2	96.0	96.0	96.0
Debt Maturing % Total Debt		0.0	20.2	37.3

Source: Company, Maybank KE

1. Aggregate leverage is expected to climb from 30.9% in 2QFY3/16 to 33.2% in FY3/17 following new debt of SGD41.7m taken to finance the redevelopment of 30 & 32 Tuas West Road.
2. Still compares well to peers: Areit 38.7% in FY3/17; MINT 33.5% in FY3/17; Cache 35.5% in FY15.
3. We estimate debt headroom of SGD320m against the 45% ceiling for aggregate leverage.
4. 96% of interest costs at fixed rates or hedged into fixed rates.
5. Low level of refinancing due in FY3/16-17, followed by higher levels in FY3/18.
6. We factor in a 50bp rise in interest rates annually for FY3/17-18. However, we expect all-in cost of debt to stay flat in FY3/17 as its SGD100m 4.9% fixed-rate note is likely to be refinanced at a lower rate. All-in cost of debt to rise by 20bps in FY3/18.

Figure 10: Likely to refinance its 4.9% note due in mid-2016 at cheaper rates

REITs of a comparable size have issued notes at an average rate of 3.88% for an average tenure of 4.8 years

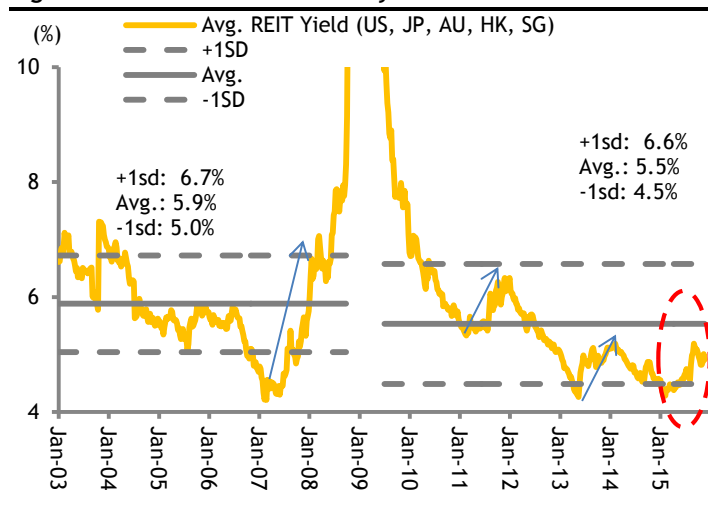
	DATE	TYPE	Principal	Interest rate	Due	Tenure (yrs)
ASCENDAS REAL ESTATE INV TRT	3/6/2015	Notes	S\$150M	3.20%	2022	7.0
ASCOTT RESIDENCE TRUST	23/11/2015	Notes	S\$200M	4.21%	2022	7.0
CAPITALAND COMMERCIAL TRUST	13/8/2015	Notes	S\$100M	2.96%	2021	6.0
MAPLETREE GREATER CHINA COMM	5/11/2015	Notes	S\$100M	3.96%	2022	7.0
MAPLETREE INDUSTRIAL TRUST	6/11/2015	Notes	S\$75M	3.02%	2023	8.0
SUNTEC REIT	3/11/2015	Notes	S\$105M	2.83%	2018	3.0
Average:				3.36%		6.3
CAMBRIDGE INDUSTRIAL TRUST	14/5/2015	Notes	S\$130M	3.95%	2020	5.0
LIPPO MALLS INDONESIA RETAIL	16/6/2015	Notes	S\$75M	4.10%	2020	5.0
RELIGARE HEALTH TRUST	15/6/2015	Notes	S\$60M	4.50%	2018	3.0
SOILBUILD BUSINESS SPACE REI	7/5/2015	Notes	S\$100M	3.45%	2018	3.0
STARHILL GLOBAL REIT	26/5/2015	Notes	S\$125M	3.40%	2023	8.0
Average:				3.88%		4.8

Source: SGX, Maybank KE

Valuation and recommendation: HOLD, TP SGD1.47

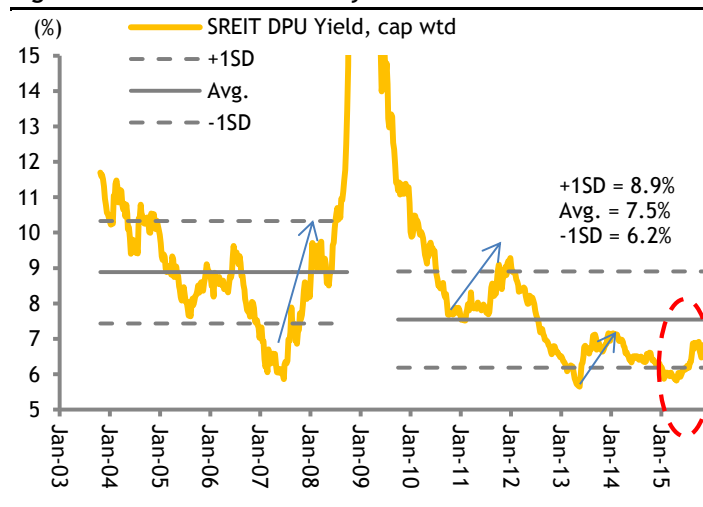
1. Our valuation of AAREIT fits within our yield targeting framework (see Singapore REITs 8 Sep 15 “[Still in a de-rating phase](#)” and Singapore REITs 30 Nov 15 “[Industrials: cleanest dirty shirt](#)”).
2. We maintain that SREITs, along with REITs in developed markets are in a de-rating phase. DM REITs yields have risen by 14% and SREIT yields by 16% from 2015 lows vs yields expanding 33% and 35%, the average of previous cycles (Fig. 11, 12, 14).
3. There are more macro factors encouraging a de-rate now than in previous de-rate cycles (Fig. 12).
4. Our yield target for AAREIT depends on the yield target of the benchmark REIT of the industrial REIT sector, which is Areit.
5. Areit has so far seen its yield expand by 14% vs a potential 26% expansion, the average of previous cycles. Applying a 26% to its yield low of 5.88% in 2015 implies that a full move could see yields hit 7.4%. But we take a 7% yield target instead (19% expansion) as Areit and the industrial REITs have seen improving fundamentals.
6. We price the rest of the industrial REITs off Areit in 25bp intervals: 7.25% for MINT, 7.75% for AAREIT, and 8.5% for CACHE.
7. We apply a target yield of 7.75% to FY3/17 DPU of 11.4 Scts to arrive at our TP of SGD1.47.
8. As a reality check, our yield target of 7.75% falls within the -1SD (7.5%) and Average (8.4%) of AAREIT’s DPU yield history, post FY3/12. AAREIT was heavily restructured and recapitalised between 3QFY3/10 (4Q09) and 2QFY3/12 (3Q11) after the current sponsors took over management of the old Macarthurcook Industrial REIT in 4Q09. Hence DPU yield history prior to FY3/12 is less relevant.

Figure 11: DM REITs have risen by 14%



Source: Maybank KE, Bloomberg

Figure 12: SREITs have risen by 16%



Source: Maybank KE, Bloomberg

Figure 13: There are more reasons for REITs to de-rate now than in previous de-rate cycles

Macro conditions when SREITs de-rated	1Q07-1Q08	4Q10-4Q11	2Q13-1Q14	2015YTD
Tightening credit (credit spreads widen)	x	x	-	x
High leverage (aggregate leverage >42%)	-	-	-	-
Rising interest rates	-	-	-	x
QE tightening	-	-	taper tantrum	-
Demand risk: uncertainties with global growth	x	x	-	x
Supply risk: oversupply of space	-	-	x	x
Currency risk	-	-	-	x

Source: Maybank KE - SREITs 8 Sep 15 "Still in a de-rating phase"

Figure 14: SREITs have so far de-rated 16%, about half previous cycles

Periods when REIT yields de-rated	Developed Markets REITs	SREITs	Industrial SREITs	Retail SREITs	Office REITs
2015 lows to date (global growth slowdown, int. rates rise)	14%	16%	11%	15%	25%
Previous periods when REITs de-rated:					
2Q13-1Q14 (taper tantrum, int. rates cut)	20%	26%	23%	31%	26%
4Q10-4Q11 (global recovery worries, int. rates cut, EZ crisis)	17%	22%	13%	17%	38%
1Q07-1Q08 (global growth weakens, int. rates cut)	62%	58%	61%	48%	80%
Yields expanded on average:	33%	35%	32%	32%	48%

Source: Maybank KE, Bloomberg

Figure 15: Benchmark REITs yield targets

Areit has so far expanded by 14%, vs 26% for previous cycles. This implies that Areit's target yield could be 7.4%. However, as we think the industrial REITs have better fundamentals than retail or office, our target yield is 7% instead.

Periods when SREITs de-rated	Ascendas REIT	CapitaLand Malls Trust	CapitLand Commercial Trust
2015 lows to date (global growth slowdown, int. rates rise)	10%	18%	36%
Previous periods when REITs de-rated:			
2Q13-1Q14 (taper tantrum, int. rates cut)	23%	29%	21%
4Q10-4Q11 (global recovery worries, int. rates cut, EZ crisis)	12%	17%	31%
1Q07-1Q08 (global growth weakens, int. rates cut)	43%	50%	72%
Yields expanded on average:	26%	32%	42%
DPU Yield: 2015 lows	5.88%	5.08%	4.85%
Implied yield target (apply avg. yield expansion)	7.41%	6.72%	6.87%
Maybank KE DPU Yield Target	7.00%	6.75%	7.00%
Last Traded Fwd DPU Yield	6.76%	5.97%	6.77%
Yield de-rating potential	4%	13%	3%

We do not expect Areit to trade to 7.4%, but to 7% as Industrial REITs have the best fundamentals.

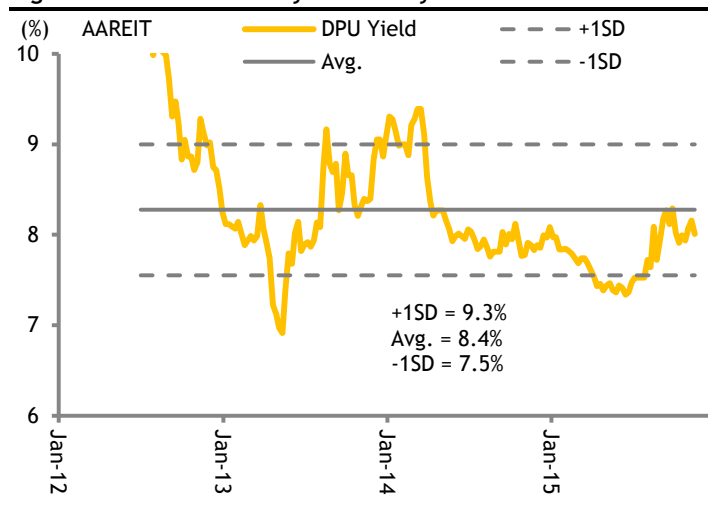
Source: Maybank KE, Bloomberg

Figure 16: We price the REITs under our coverage at 25bp intervals off their benchmarks

Yield Targets	6.75%	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%
Retail SREITs								
CT (benchmark)	x							
FCT		x						
MCT			x					
SGREIT				x				
Office SREITs								
CCT (benchmark)		x						
SUN			x					
KREIT			x					
Industrial SREITs								
AREIT (benchmark)		x						
MINT			x					
AAREIT					x			
CACHE								x

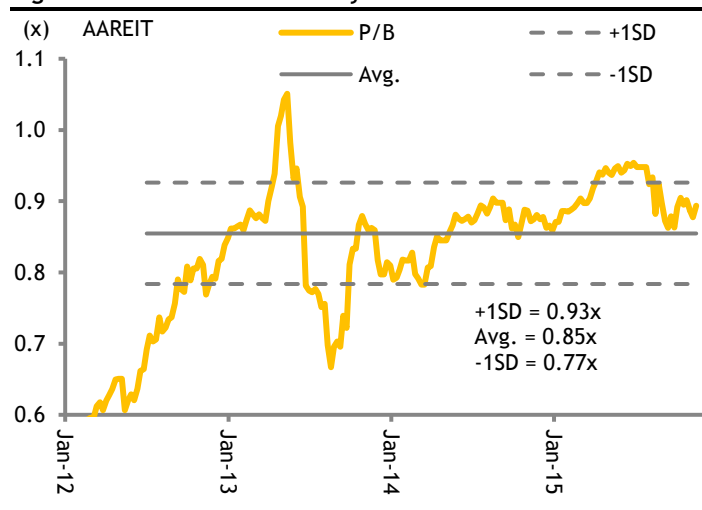
Source: Maybank KE

Figure 17: AAREIT's DPU yield history



Source: Bloomberg, Maybank KE

Figure 18: AAREIT's P/B history



Source: Bloomberg, Maybank KE

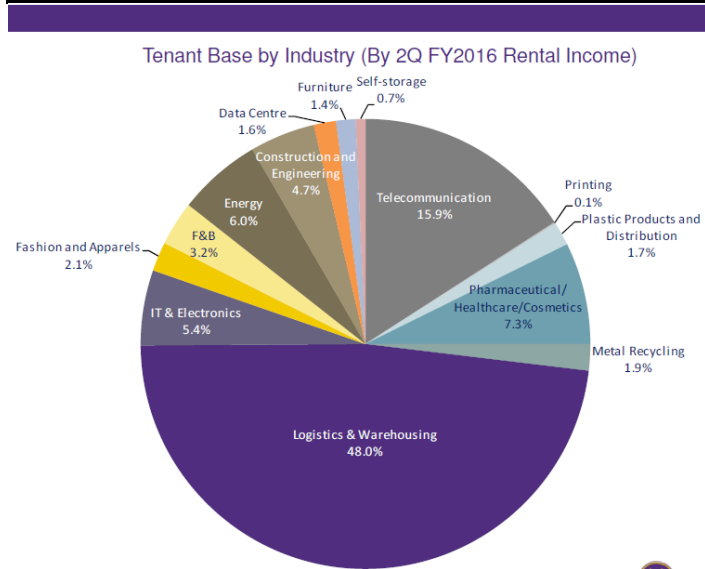
Risks

1. Our forecasts expect a low growth sub-2% economy but not an outright recession, which would raise lease renewal risks, affecting occupancies and rent reversions.
2. AAREIT has significant exposure to the logistics and warehousing industry. While absorption of warehousing space has been

encouraging in the face of weak non-oil exports, a trade recession would certainly pose downside risks.

- AAREIT has significant single tenant risk in its 21.8% exposure to CWT, which also happens to be the master lessee of its largest asset - 20 Gulway (21.8% gross rental income). CWT's arrangement at 20 Gulway is in parts: out of a total 154k sqm, 37k sqm is up for renewal in FY3/17, while 80k sqm is up for renewal in FY3/18.

Figure 19: Tenants heavily skewed to logistics industry



Source: Company

Figure 20: Plus heavy exposure to CWT

Quality tenant base

Top 10 tenants by 2Q FY2016 by rental income

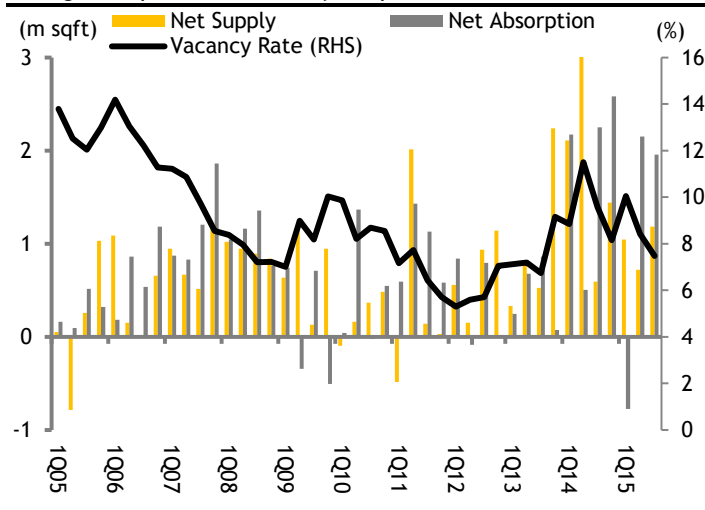
Tenant	%
CWT Limited*	21.7%
Optus Administration Pty Limited*	13.1%
Eurochem Corporation Pte Ltd	6.0%
Schenker Singapore (Pte) Ltd*	3.6%
Illumina Singapore Pte Ltd*	2.8%
FNA Group International	2.5%
LTH Logistics (Singapore) Pte Ltd* (Vibrant Group Limited)	2.3%
Broadcom Singapore Pte Ltd*	2.1%
Enviro-Hub Group*	1.8%
Element14*	1.5%
Top 10 tenants	57.4%



* Listed Groups or subsidiaries of listed entities

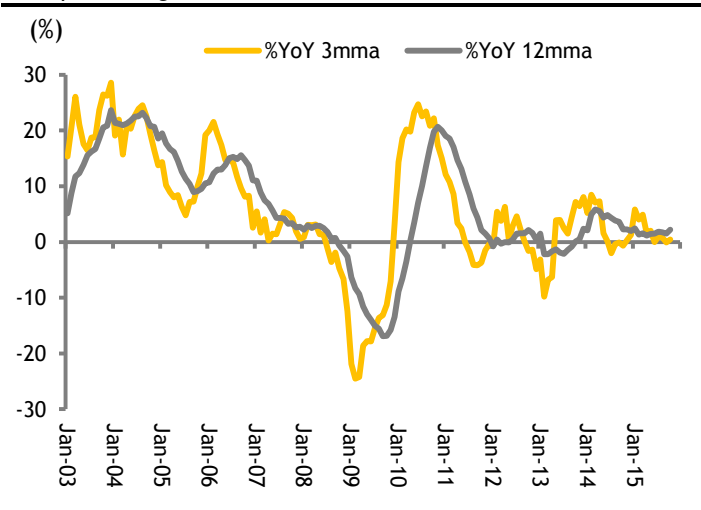
Source: Company

Figure 21: Warehouse market per quarter
Strong absorption in the last five quarters...



Source: URA

Figure 22: Singapore's non-oil exports
... despite low growth



Source: CEIC, Maybank KE

	FY End	Rating	Mkt Cap (SGD m)	Upside (%)	LP (SGD)	TP	DPU (SGD cents)			Yield (Hist.)	Div. (%)		BVPS (SGD)		P/BV (x)		Agg. Lev. (%)	All-in CoD (%)	
							(hist.)	DPU (1)	DPU (2)	(Hist.)	Yield (1)	Yield (2)	(hist.)	BVPS (1)	(Hist.)	P/BV (1)	Lev. (%)	(%)	
RETAIL REITs																			
CapitaMall Trust	Dec	SELL	6,640	-11.5	1.88	1.66	10.8	10.8	11.2	5.8	5.8	6.0	1.81	1.77	1.03	1.06	33.8	3.30	
Mapletree Comm. Trust	Mar	SELL	2,713	-13.3	1.28	1.11	8.0	8.0	8.1	6.3	6.3	6.3	1.24	1.24	1.03	1.04	36.4	2.42	
SPH REIT	Aug	NR	2,344	9.2	0.93	1.01	6.0	5.6	5.7	6.5	6.1	6.2	0.95	0.95	0.98	0.98	26.0	2.55	
Frasers Cpt. Trust	Sep	SELL	1,715	-12.8	1.87	1.63	11.6	11.5	11.4	6.2	6.2	6.1	1.85	1.91	1.01	0.98	28.2	2.40	
Starhill Global REIT	Dec	HOLD	1,647	-2.0	0.76	0.74	5.1	5.3	5.6	6.7	7.0	7.4	0.93	0.93	0.81	0.81	35.7	3.13	
Capitalisation-weighted average										6.1	6.1	6.2			1.00	1.01			
OFFICE REITs																			
CapitaComm. Trust	Dec	HOLD	3,839	-3.8	1.30	1.25	8.5	8.6	8.8	6.5	6.6	6.7	1.75	1.75	0.74	0.74	30.1	2.40	
Keppel REIT	Dec	HOLD	3,007	-3.7	0.94	0.90	7.2	6.8	6.5	7.7	7.3	7.0	1.39	1.38	0.67	0.68	42.6	2.50	
Suntec REIT	Dec	SELL	3,820	-12.2	1.52	1.33	9.4	9.4	9.6	6.2	6.2	6.4	2.12	2.09	0.72	0.72	36.7	2.74	
Frasers Comm. Trust	Sep	NR	1,011	21.8	1.29	1.57	9.7	9.9	10.0	7.6	7.7	7.8	1.54	1.62	0.83	0.80	37.3	3.00	
OUE Comm. REIT	Dec	NR	881	-4.0	0.69	0.66	5.3	4.8	5.0	7.7	7.0	7.3	0.99	1.08	0.69	0.63	38.6	2.88	
Capitalisation-weighted average										6.9	6.7	6.8			0.72	0.72			
INDUSTRIAL REITs																			
Ascendas REIT	Mar	HOLD	5,687	-3.4	2.36	2.28	14.6	15.2	16.0	6.2	6.4	6.8	2.08	2.18	1.13	1.09	34.7	2.73	
Mapletree Ind. Trust	Mar	HOLD	2,700	-2.3	1.53	1.49	10.4	10.7	10.8	6.8	7.0	7.1	1.32	1.32	1.15	1.15	29.7	2.30	
Mapletree Log. Trust	Mar	NR	2,508	11.0	1.01	1.12	7.5	7.6	7.7	7.4	7.5	7.6	1.02	1.06	0.99	0.95	34.4	2.20	
Cache Log. Trust	Dec	HOLD	820	3.3	0.92	0.95	8.6	8.3	8.1	9.3	9.0	8.8	0.98	0.96	0.94	0.96	38.3	3.40	
AIMS AMP	Mar	HOLD	857	8.9	1.35	1.47	11.1	11.2	11.4	8.2	8.3	8.4	1.52	1.54	0.89	0.88	30.9	4.20	
Cambridge Ind. Trust	Dec	NR	769	4.8	0.60	0.62	5.0	4.9	5.0	8.4	8.2	8.4	0.68	0.70	0.88	0.85	37.2	3.69	
Soilbuild Business REIT	Dec	NR	729	15.6	0.78	0.90	6.2	6.4	6.5	7.9	8.2	8.3	0.80	na	0.98	na	36.3	3.49	
Sabana	Dec	NR	535	26.0	0.73	0.92	7.3	7.0	7.1	10.0	9.6	9.7	1.06	na	0.69	na	38.0	4.20	
Viva Ind. Trust	Dec	NR	615	21.7	0.72	0.87	6.8	na	na	9.6	na	na	0.83	na	0.86	na	38.9	3.89	
Keppel DC REIT	Dec	NR	927	9.5	1.05	1.15	na	6.1	6.8	na	5.8	6.5	na	0.88	na	1.19	29.5	2.50	
Capitalisation-weighted average										7.3	7.2	7.4			1.04	1.05			
Capitalisation-weighted average (Retail, Office, Ind.):										6.8	6.7	6.8			0.93	0.94			

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
Price/DPU(x)	12.8	12.2	12.0	11.9	11.3
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	7.8	8.2	8.3	8.4	8.8
FCF yield (%)	10.0	8.9	8.9	9.2	9.7

INCOME STATEMENT (SGD m)

Gross revenue	108.2	115.4	122.0	124.9	134.0
Net property income	71.9	80.0	81.0	82.8	87.9
Net financing costs	(13.7)	(22.7)	(19.3)	(20.2)	(21.8)
Associates & JV	(0.5)	26.2	14.2	14.7	15.1
Exceptionals	34.1	38.5	15.3	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Total return before tax	84.0	109.8	82.0	67.9	70.3
Income tax	(0.1)	(1.7)	(1.4)	(1.5)	(1.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	83.9	108.1	80.6	66.4	68.8
Distributable inc to unitholders	55.7	66.4	71.0	72.3	76.3

BALANCE SHEET (SGD m)

Cash & Short Term Investments	21.8	10.1	10.0	10.9	11.3
Accounts receivable	7.2	6.2	7.2	7.6	8.5
Property, Plant & Equip (net)	0.0	0.0	0.0	0.1	0.1
Investment properties	1,157.5	1,233.5	1,247.4	1,275.2	1,275.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	215.2	204.9	220.2	220.2	220.2
Other assets	3.5	3.7	3.7	3.7	3.7
Total assets	1,405.2	1,458.3	1,488.5	1,517.5	1,518.9
ST interest bearing debt	0.0	0.0	100.0	185.0	236.0
Accounts payable	39.1	30.3	29.9	32.8	36.4
LT interest bearing debt	442.1	454.2	368.1	310.9	259.9
Other liabilities	12.1	11.7	15.1	15.6	15.6
Total Liabilities	493.4	496.2	513.1	544.3	548.0
Shareholders Equity	911.9	962.1	975.4	973.2	971.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	911.9	962.1	975.4	973.2	971.0
Total liabilities and equity	1,405.2	1,458.3	1,488.5	1,517.5	1,518.9

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	17.5	6.6	5.7	2.4	7.3
Total return before tax growth	6.2	30.6	(25.3)	(17.2)	3.5
Total return growth	6.1	28.7	(25.4)	(17.6)	3.5
Distributable income growth	19.0	20.9	5.6	1.8	5.5
Profitability ratios (%)					
Total return before tax margin	77.6	95.1	67.3	54.4	52.4
Payout ratio	67.2	64.1	88.0	nm	nm
DuPont analysis					
Total return margin (%)	77.6	93.6	66.1	53.2	51.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.5	1.6	1.6
ROAE (%)	7.3	7.4	7.5	7.6	8.1
ROAA (%)	4.6	4.8	5.0	5.0	5.2
Liquidity & Efficiency					
Days receivable outstanding	25.6	20.8	19.7	21.2	21.6
Days payables outstanding	291.0	352.6	264.2	267.8	269.9
Dividend cover (x)	1.5	1.6	1.1	0.9	0.9
Current ratio (x)	0.7	0.5	0.1	0.1	0.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	2.9	2.9	2.8	2.8
Net debt/equity (%)	46.1	46.2	47.0	49.8	49.9
Net interest cover (x)	4.7	3.0	3.7	3.6	3.5
Debt/EBITDA (x)	6.9	6.7	6.5	6.8	6.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	420.3	444.1	458.1	485.1	484.6

Source: Company; Maybank

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