

# Singapore Company Guide

## Ascendas India Trust

Edition 1 Version 1 | Bloomberg: AIT SP | Reuters: AINT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Oct 2015

### HOLD

Last Traded Price: S\$0.91 (STI : 3,083.07)

Price Target : S\$0.90 (1% downside)

**Potential Catalyst:** Acquisitions and/or further redevelopments

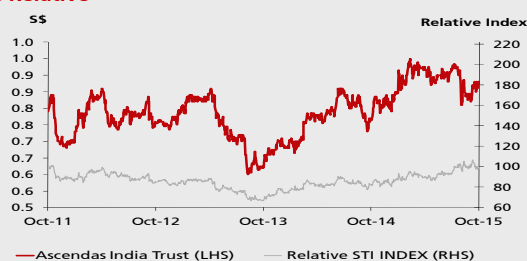
**Where we differ:** In line with consensus with exception of FY16 on higher sales

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#### Price Relative



#### Forecasts and Valuation

FY Mar (\$\$ m)	2014A	2015A	2016F	2017F
Gross Revenue	121	129	160	169
Net Property Inc	72	78	98	102
Total Return	50	66	53	54
Distribution Inc	46	50	58	60
EPU (\$ cts)	1.9	3.0	5.7	5.8
EPU Gth (%)	(31)	59	91	3
DPU (\$ cts)	4.6	4.9	5.6	5.8
DPU Gth (%)	(1)	7	15	4
NAV per shr (\$ cts)	60.0	66.2	65.9	65.5
PE (X)	48.7	30.6	16.0	15.6
Distribution Yield (%)	5.0	5.3	6.2	6.4
P/NAV (x)	1.5	1.4	1.4	1.4
Aggregate Leverage (%)	25.6	31.1	35.3	34.8
ROAE (%)	2.9	4.6	8.4	8.6

Distn. Inc Chng (%)			1	5
Consensus DPU (\$ cts)			5.5	6.0
Other Broker Recs:	B: 2	S: 0	H: 2	

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

### STRONG OUTLOOK PRICED IN FOR NOW

**Positive outlook priced in for now.** We maintain our HOLD recommendation and S\$0.90. While a-iTrust as expected delivered another strong set of results with 2Q16 DPU up 8% y-o-y to 1.37 Scts and its long term outlook remains bright, we believe this has largely been priced in given the trust trades at +1SD P/BV of 1.4x.

**Near-term growth drivers.** Over the past year, a-iTrust has announced several developments including the construction of The V, a new 408k-sqft IT building, as well as the acquisitions of CyberVale, aVance3 and BlueRidge Phase II. Coupled with continued growth in the trust's existing portfolio and relatively stable SGD/INR exchange rate (46-47), we project a healthy 11% DPU CAGR over the next three years.

**Untapped land bank and acquisition pipeline.** Through its untapped land bank and sponsor pipeline, a-iTrust has access to potential c.5.9m sqft of floor area. This provides the trust with a visible and sustainable source of growth over the long term. The ability to execute on these growth opportunities is supported by a healthy balance sheet (current low gearing of 27% rising to an estimated 35% with planned developments/acquisitions in the next couple of years).

#### Valuation:

We maintain our HOLD recommendation given limited upside to our DDM-based TP of S\$0.90. With yield spread over the 10-year SGD bond of 4.4%, which is close to its average spread of 5%, we believe this supports our neutral stance.

#### Key Risks to Our View:

A key risk to our HOLD recommendation is a stronger-than-expected INR. We have imputed a long-term SGD/INR exchange rate of 85. In addition, we have yet to include the full impact of the BlueRidge II Phase II acquisition given uncertainty over the timing and final purchase consideration. We have only included the initial subscription of the non-convertible debentures.

#### At A Glance

Issued Capital (m shrs)	924
Mkt. Cap (\$m/US\$m)	841 / 602
Major Shareholders	
Ascendas Pte Ltd (%)	23.6
Massachusetts Financial Services (%)	13.7
JP Morgan Chase (%)	8.9
Free Float (%)	39.0
3m Avg. Daily Val (US\$m)	0.53
ICB Industry : Real Estate / Real Estate Investment Trust	

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

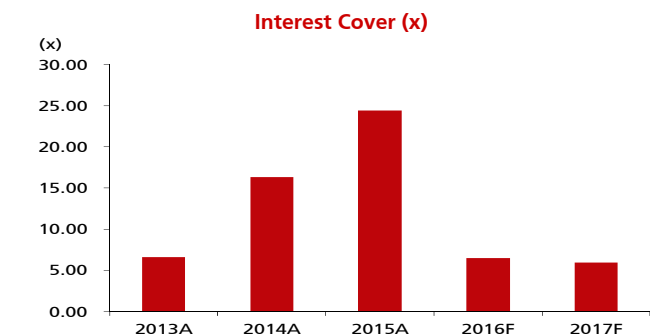
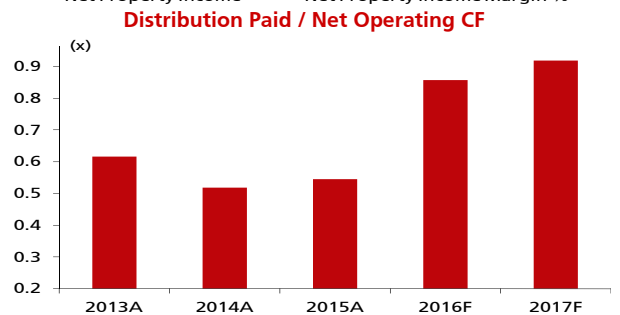
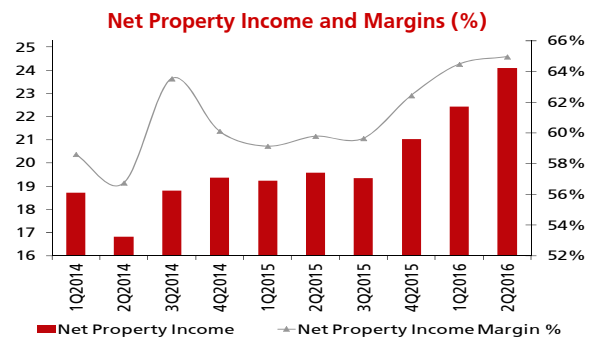
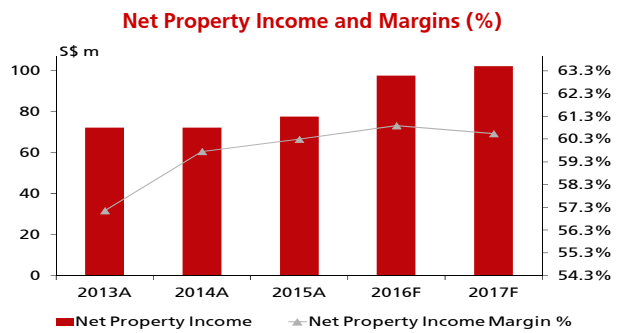
**Leveraged on offshoring trends.** a-iTrust provides exposure to India, which remains a leading IT and offshoring hub. The growing demand for offshoring services is underpinned by the country's low-cost environment. According to PayScale, the average salary for IT/software, developers or programmers in India stands at US\$5,682 p.a. which is below that of other competing and/or developed countries such as US (US\$71,529), Australia (US\$52,408), Hong Kong (US\$22,081) and Malaysia (US\$10,692). Combined with an abundant skilled labour force and qualified English-speaking talent pool, based on NASSCOM (National Association of Software and Services Companies) estimates, IT-BPM (business process management) revenues are forecast to grow by 13-15% in FY15/16 to US\$165-168bn.

**Balanced lease expiry to capture upside in rents.** a-iTrust WALE stands at 3.5 years with 4%, 18% and 31% of leases up for renewal over FY16, FY17 and FY18. Given the favourable demand backdrop and limited supply in certain markets such as Chennai, we believe a-iTrust's lease expiry profile provides the trust with ample opportunities to capture the upside in rents.

**Boost from recent acquisitions and developments.** Over the past year, a-iTrust announced the construction of The V, a new 408k-sqft IT building as well as the acquisitions of CyberVale, aVance 3 and BlueRidge Phase II. These organic and inorganic developments should boost a-iTrust's DPU, contributing to a healthy 11% DPU CAGR over the next three years.

**Potential one-third increase in floor area.** a-iTrust currently has a portfolio of properties with 8.07m sqft of space. This could potentially increase by a third over the long term, as a-iTrust has an undeveloped land bank that could be converted into c.3.6m sqft of space. In addition, through its sponsors and assuming a-iTrust exercises its ROFR, it could access c.2.3m sqft worth of properties. Beyond this, we understand the trust is also open to the acquisition of third-party properties. Currently, it is exploring acquisition opportunities in Mumbai, Delhi and Gurgaon, thereby expanding its presence beyond its current core markets of Bangalore, Chennai, Hyderabad and Pune.

**2Q16 results inline.** a-iTrust reported a healthy set of results with 2Q16 DPU coming in at 1.37 Scts (+8% y-o-y). The results were underpinned by 19% y-o-y increase in INR NPI (+23% in SGD terms). This was partially mitigated by a 46% jump in interest expenses on account of higher borrowings on the back of acquisitions/developments made over the past year. Overall occupancy was healthy up slightly to 97% from 96% in 2Q15.



Source: Company, DBS Bank

**Balance Sheet:**

**Flexible balance sheet.** a-iTrust had a low gearing of 27% in 2Q16 which is within the management’s comfortable range. We expect gearing to rise to c.35% by end-FY17 after including the trust’s existing development projects.

**100% of debt fixed.** As at end-Sep-15, 100% of the trust’s debt was fixed with all-in cost of debt of 7%. This minimises the trust’s exposure to short-term volatility in interest rates.

**Share Price Drivers:**

**Stronger INR.** Since a-iTrust’s IPO in 2008, its NPI in INR terms has grown at a CAGR of 12%. However, due to the weakness in the INR, a-iTrust’s share price has been capped and NPI in SGD terms has only grown at a 5% CAGR. Should the INR appreciate significantly, this will provide a major tailwind for a-iTrust’s share price.

**Crystallisation of development and sponsor pipeline.** The trust has a development and sponsor pipeline of c.3.6m sqft and 2.3m sqft respectively. The delivery of the development pipeline and acquisition of its sponsor’s properties with resultant increase in earnings/DPU should drive the stock higher over the medium term.

**Key Risks:**

**Currency risk.** a-iTrust’s distributions are generated in INR but paid in SGD. While the trust hedges each half-yearly distribution, DPU from the trust will be negatively impacted on a lagged basis if the INR depreciates. In addition, as 75% and 25% of the trust’s borrowings are in INR and SGD respectively, while all its assets are in India, a depreciation of the INR would also be negative to its NAV per share.

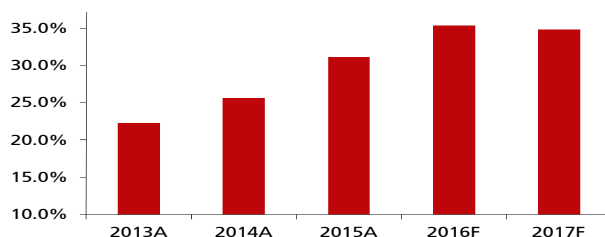
**Economic risk.** Deterioration in the Indian economic outlook and/or companies outsourcing their operations to India may negatively impact demand for space and rents at a-iTrust’s properties.

**Interest rate risk.** Increases in interest rates will result in higher interest payments which would reduce income available for distribution. This risk is partially mitigated by the fact that 100% of the trust’s debt is fixed.

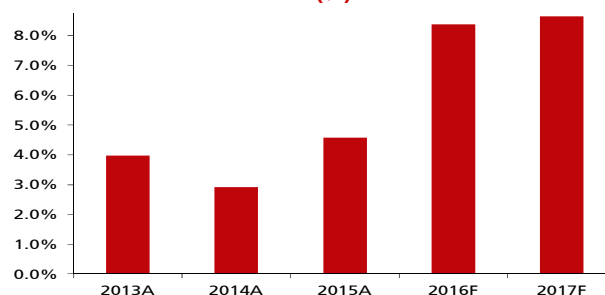
**COMPANY BACKGROUND**

Ascendas India Trust (a-iTrust) was listed in August 2007 as the first Indian property trust in Asia. Its principal objective is to own income-producing real estate used primarily as business space in India. a-iTrust may also develop and acquire land or uncompleted developments to be used primarily as business space, with the objective of holding the properties upon completion. a-iTrust is managed by Ascendas Property Fund Trustee Pte Ltd, a subsidiary of the Ascendas Group.

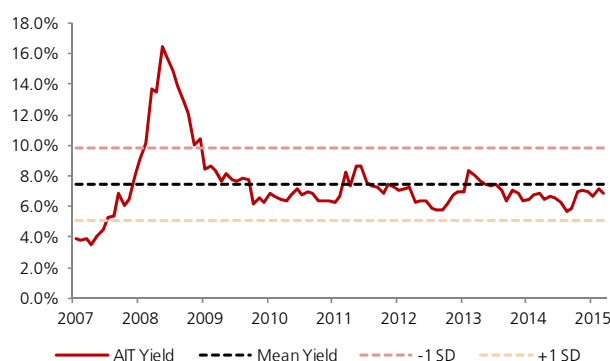
**Aggregate Leverage (%)**



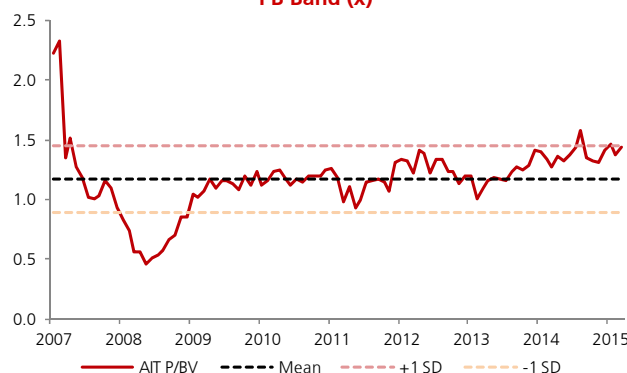
**ROE (%)**



**Distribution Yield (%)**



**PB Band (x)**



Source: Company, DBS Bank

## Income Statement (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Gross revenue	126	121	129	160	169
Property expenses	(54)	(49)	(51)	(63)	(67)
<b>Net Property Income</b>	<b>72</b>	<b>72</b>	<b>78</b>	<b>98</b>	<b>102</b>
Other Operating expenses	(8)	(8)	(8)	(10)	(10)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(10)	(4)	(3)	(14)	(16)
Exceptional Gain/(Loss)	(12)	(8)	4	0	0
<b>Net Income</b>	<b>42</b>	<b>52</b>	<b>71</b>	<b>74</b>	<b>77</b>
Tax	(15)	(30)	(38)	(19)	(19)
Minority Interest	(4)	(5)	(5)	(3)	(3)
Preference Dividend	0	0	0	0	0
<b>Net Income After Tax</b>	<b>23</b>	<b>17</b>	<b>27</b>	<b>53</b>	<b>54</b>
Total Return	42	50	66	53	54
Non-tax deductible Items	2	(13)	(16)	5	6
Net Inc available for Dist.	43	46	50	58	60
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	(1.0)	(4.4)	6.7	24.4	5.5
N Property Inc Gth (%)	(1.2)	(0.1)	7.6	25.7	4.9
Net Inc Gth (%)	14.5	(25.4)	59.8	92.5	3.3
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	57.1	59.7	60.3	60.9	60.5
Net Income Margins (%)	18.1	14.2	21.2	32.8	32.1
Dist to revenue (%)	34.3	38.2	38.7	35.9	35.6
Managers & Trustee's fees to sales (%)	6.3	6.5	6.5	6.1	5.9
ROAE (%)	4.0	2.9	4.6	8.4	8.6
ROA (%)	2.2	1.6	2.4	4.1	4.1
ROCE (%)	4.0	2.6	2.8	5.3	5.4
Int. Cover (x)	6.6	16.3	24.4	6.5	5.9

Improvement in earnings on the back of a more stable SGD/INR FX rate, positive rental reversions and contributions from new properties

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (\$\$ m)**

FY Mar	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Gross revenue	32	32	33	34	36
Property expenses	(13)	(13)	(12)	(12)	(13)
Net Property Income	19	19	21	22	24
Other Operating expenses	(7)	(3)	(3)	(2)	0
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	0	(1)	(1)	(1)	(3)
Exceptional Gain/(Loss)	5	0	6	(3)	0
<b>Net Income</b>	<b>17</b>	<b>15</b>	<b>23</b>	<b>16</b>	<b>21</b>
Tax	(4)	(3)	(27)	(7)	(6)
Minority Interest	(1)	(1)	(2)	(1)	(1)
<b>Net Income after Tax</b>	<b>12</b>	<b>11</b>	<b>(7)</b>	<b>8</b>	<b>14</b>
Total Return	12	11	32	8	17
Non-tax deductible Items	1	(3)	20	6	(5)
Net Inc available for Dist.	13	12	13	14	14
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	1	(1)	4	3	7
N Property Inc Gth (%)	2	(1)	9	7	8
Net Inc Gth (%)	4	(10)	nm	nm	75
Net Prop Inc Margin (%)	59.8	59.6	62.4	64.5	65.0
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

The improvement in earnings was due to the contribution from the acquisition of CyberVale and aVance 3 as well as positive rental reversions for a-iTrust's existing portfolio

**Balance Sheet (\$\$ m)**

FY Mar	2013A	2014A	2015A	2016F	2017F
Investment Properties	1	0	0	0	0
Other LT Assets	960	953	1,150	1,244	1,260
Cash & ST Invt	70	74	70	50	39
Inventory	1	1	1	1	1
Debtors	19	20	23	28	30
Other Current Assets	15	14	14	14	14
<b>Total Assets</b>	<b>1,065</b>	<b>1,063</b>	<b>1,257</b>	<b>1,337</b>	<b>1,343</b>
ST Debt	0	50	90	90	90
Creditor	38	39	43	53	56
Other Current Liab	0	1	1	1	1
LT Debt	205	184	225	291	291
Other LT Liabilities	172	180	222	222	222
Unit holders' funds	608	566	627	628	628
Minority Interests	41	42	49	52	56
<b>Total Funds &amp; Liabilities</b>	<b>1,065</b>	<b>1,063</b>	<b>1,257</b>	<b>1,337</b>	<b>1,343</b>
Non-Cash Wkg. Capital	(4)	(5)	(6)	(11)	(12)
Net Cash/(Debt)	(135)	(160)	(246)	(331)	(342)
<b>Ratio</b>					
Current Ratio (x)	2.7	1.2	0.8	0.6	0.6
Quick Ratio (x)	2.3	1.0	0.7	0.5	0.5
Aggregate Leverage (%)	22.3	25.6	31.1	35.3	34.8
Z-Score (X)	1.5	1.4	1.1	1.0	1.0

Increase in gearing due to new properties

Source: Company, DBS Bank

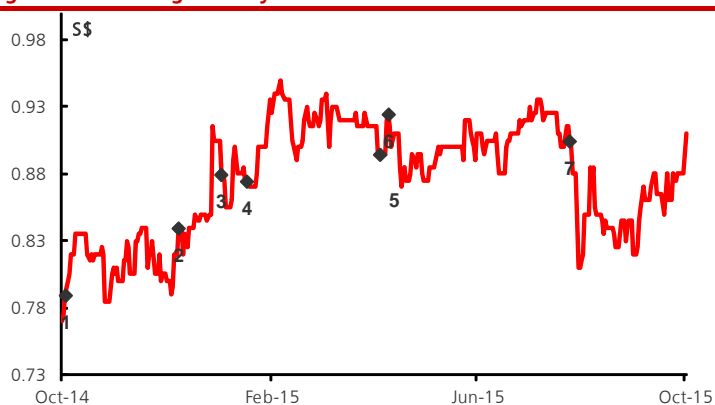
## Cash Flow Statement (S\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Pre-Tax Income	42	52	71	74	77
Dep. & Amort.	0	0	0	0	0
Tax Paid	0	(11)	(12)	(19)	(19)
Associates & JV Inc/(Loss)	0	0	0	0	0
Chg in Wkg.Cap.	(3)	14	4	5	1
Other Operating CF	30	22	17	0	0
<b>Net Operating CF</b>	<b>68</b>	<b>77</b>	<b>80</b>	<b>60</b>	<b>59</b>
Net Invnt in Properties	(56)	(35)	(18)	(67)	(16)
Other Invnts (net)	0	(9)	(92)	(27)	0
Invnts in Assoc. & JV	0	0	0	0	0
Div from Assoc. & JVs	0	0	0	0	0
Other Investing CF	0	0	0	0	0
<b>Net Investing CF</b>	<b>(56)</b>	<b>(44)</b>	<b>(109)</b>	<b>(94)</b>	<b>(16)</b>
Distribution Paid	(42)	(40)	(43)	(52)	(54)
Chg in Gross Debt	(45)	18	80	66	0
New units issued	99	0	0	0	0
Other Financing CF	(15)	0	(16)	0	0
<b>Net Financing CF</b>	<b>(3)</b>	<b>(23)</b>	<b>21</b>	<b>14</b>	<b>(54)</b>
Currency Adjustments	(5)	(6)	4	0	0
Chg in Cash	5	5	(5)	(19)	(11)
Operating CFPS (S cts)	8.5	6.9	8.3	6.0	6.2
Free CFPS (S cts)	1.5	4.6	6.7	(0.7)	4.6

Investment in Non-convertible Debentures related to the BlueRidge Phase II property

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	28 Oct 14	0.79	0.81	HOLD
2	02 Jan 15	0.84	0.87	BUY
3	27 Jan 15	0.88	0.95	BUY
4	11 Feb 15	0.88	0.96	BUY
5	30 Apr 15	0.90	0.96	BUY
6	05 May 15	0.93	0.96	BUY
7	19 Aug 15	0.91	0.90	HOLD

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

Source: DBS Bank

DBS Bank recommendations are based on 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 catalysts within this time frame)

*Share price appreciation + dividends*

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