

Ascendas REIT (AREIT SP)

Property - REITS

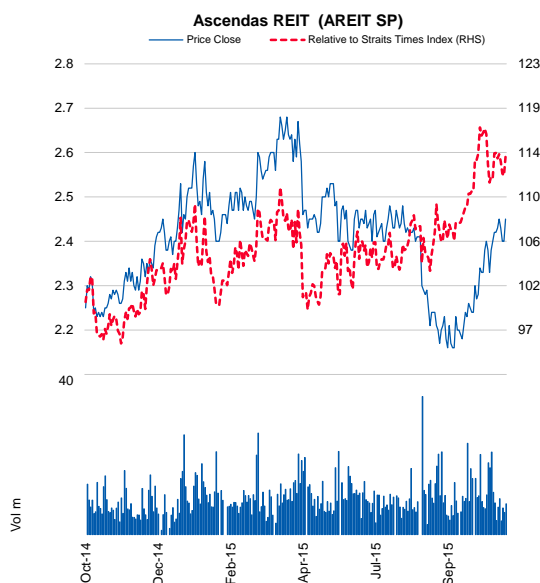
Market Cap: USD4,234m

Buy (Maintained)

 Target Price: **SGD2.55**

 Price: **SGD2.45**

Stellar Quarterly Results

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	22.8m/16.2m				
Cons. Upside (%)	4.1				
Upside (%)	4.1				
52-wk Price low/high (SGD)	2.16 - 2.68				
Free float (%)	83				
Share outstanding (m)	2,408				
Shareholders (%)					
Ascendas Pte Ltd	17.1				
Matthews International	9.4				
Blackrock	5.2				
Share Performance (%)					
	YTD	1m	3m	6m	12m
Absolute	2.9	8.9	0.8	(6.9)	8.9
Relative	12.6	3.0	10.4	6.2	14.1

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2Q/1HFY16 results met our expectations as A-REIT announced DPU growth of 13.7%/9.6% YoY. Maintain BUY with a higher SGD2.55 TP (10.4% total return). Strong rental reversion of 9.1% was registered last quarter, mainly driven by renewals within the business and science park segment. It also enjoyed stronger contributions from new properties such as Aperia and The Kendall, coupled with higher occupancy from assets such as 40 Penjur Lane.

- ◆ **Stellar results in line with expectations.** Ascendas REIT's (A-REIT) 2Q/1HFY16 (Mar) DPU grew 13.7%/9.6% YoY, underpinned by higher occupancy rates, 9.1% (from 6.6%) positive rental reversion, and contributions from its new acquisitions (Aperia, Hyflux Innovation Centre and The Kendall), accounting for 52.1% of our full-year estimate. Excluding a one-off distribution of taxable income from operations of SGD6.5m, 2QFY16 DPU growth would have been 6.3% YoY. We think that this is a stellar performance despite the challenging industrial leasing market in Singapore.
- ◆ **What's driving the high single-digit rental reversion?** In the last quarter, A-REIT renewed over 1.6m sq ft of net lettable area (NLA), achieving an increase of 2.0-13.2% in renewal rates across different sub-segments. The best-performing sub-segment was business and science parks, which is also the reason A-REIT is chosen as our best industrial REIT pick as ~34% of its portfolio is exposed to the business and science park space.
- ◆ **Single-user asset (SUA) conversion at tail-end.** As of 3Q15, it had only 2.3% of property income from SUAs expiring. We estimate that it is likely to see its multi-tenanted buildings' (MTB) occupancy bottoming out by end-FY16, which should boost its resilience and property income into FY17.
- ◆ **A-REIT remains attractive to us; still a BUY.** A-REIT has SGD23.7m and SGD101.6m worth of development and asset enhancement works respectively due for completion by 2Q16 to buffer downside risks. We like A-REIT for its well-diversified income stream and business-park exposure. In addition, A-REIT is an industrial bulwark with an A3-credit rating, allowing it to have longer-term borrowings compared to its peers. In view of these, we maintain our BUY recommendation with a higher TP of SGD2.55 (from SGD2.35).

Forecasts and Valuations	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover (SGDm)	614	673	717	742	752
Net property income (SGDm)	436	463	508	526	532
Reported net profit (SGDm)	482	398	411	425	430
Total distributable income (SGDm)	339	348	370	383	388
DPS (SGD)	0.14	0.15	0.15	0.16	0.16
DPS growth (%)	3.6	2.7	5.1	3.5	0.9
Recurring P/E (x)	12.1	19.0	14.4	13.9	13.7
P/B (x)	1.21	1.18	1.19	1.18	1.17
Dividend Yield (%)	5.8	6.0	6.3	6.5	6.6
Return on average equity (%)	10.1	8.1	8.2	8.5	8.5
Return on average assets (%)	6.7	5.1	5.0	5.1	5.1
Interest coverage ratio (x)	5.95	3.69	3.10	3.17	3.19

Source: Company data, RHB

Figure 1: A-REIT's 2QFY16 results summary

FYE Mar (SGDm)	2QFY15	1QFY16	2QFY16	%QoQ	%YoY	Comments
Gross revenue	164.8	180.5	182.6	1.2	10.8	Gross revenue increased by 10.8% YoY mainly due to contributions from: i) the acquisition of Aperia and The Kendall, and ii) completed asset enhancement initiatives.
Operating expenses	(50.1)	(56.2)	(58.8)	4.6	17.4	Property operating expenses increased by 17.4% YoY, mainly attributable to the acquisition of Aperia and The Kendall.
NPI	114.7	124.3	123.8	(0.4)	8.0	
Performance fees	0.0	0.0	0.0	nm	nm	
Manager's fees	(9.7)	(10.0)	(10.0)	0.9	3.9	
Trustee fees	(1.5)	(1.0)	(2.0)	100.8	31.9	
Foreign exchange gain	14.1	14.2	(33.7)	nm	nm	
Net income before financing cost & tax	117.6	127.5	78.0	(38.8)	(33.6)	
Interest income	12.5	9.0	15.2	69.9	21.7	
Borrowing costs	(32.4)	(21.2)	(20.6)	(3.3)	(36.5)	
EBT	97.7	115.2	72.7	(36.9)	(25.6)	
Gain of divestment of investment properties	0.0	0.0	0.0	nm	nm	
Gains from revaluation	28.1	4.5	0.0	nm	nm	
Gains from derivatives	(12.0)	(27.5)	50.8	nm	nm	
Total return before tax	113.8	92.2	123.5	33.9	8.5	
Tax	(0.9)	(0.4)	(0.7)	57.6	(18.0)	
Total return - reported	113.0	91.7	122.8	33.8	8.7	
Total return (ex exceptionals)	96.9	114.7	72.0	(37.2)	(25.6)	
Add-back: Non tax deductibles	1.2	4.3	(23.9)	nm	nm	
Deduct: Net change on revaluation of investment properties	(28.1)	(4.5)	0.0	nm	nm	
Income available for distribution	86.0	91.6	99.3	8.4	15.4	
Distribution from capital	0.7	0.4	0.4	0.0	(39.5)	
Distributable income	87.8	92.5	100.2	8.3	14.0	
Number of units (end of period) (m)	2,404.1	2,407.8	2,407.8	(0.0)	0.2	
DPU (SGD-cts)	3.66	3.84	4.16	8.3	13.7	
NAV (SGD)	2.07	2.05	2.10	2.4	1.7	
Payout ratio (%)	102.1	100.9	100.9	(0.1) ppt	(1.2) ppt	
NPI margins (%)	69.6	68.8	67.8	(1.1) ppt	(1.8) ppt	

Source: RHB

Figure 2: A-REIT's 1HFY16 results summary

FYE Mar (SGDm)	1HFY15	1HFY16	%Change	RHB FY16F	% of FY16F	Comments
Gross revenue	328.0	363.1	10.7	717.5	50.6	Gross revenue increased by 10.7% YoY mainly due to contributions from: i) the acquisition of Aperia and The Kendall, and ii) completed asset enhancement initiatives. Property operating expenses increased by 18.6% YoY mainly attributable to: i) the acquisition of Aperia and The Kendall, and iii) increased occupancy at certain properties.
Operating expenses	(97.0)	(115.1)	18.6	(209.1)	55.0	
NPI	230.9	248.1	7.4	508.3	48.8	
Performance fees	0.0	0.0	nm	0.0	nm	
Manager's fees	(18.7)	(20.0)	7.1	(39.6)	50.5	
Trustee fees	(3.1)	(3.0)	(2.3)	(6.6)	45.8	
Foreign exchange gain	(41.4)	(19.5)	(52.8)	0.0	nm	
Net income before financing cost & tax	167.8	205.5	22.5	462.1	44.5	
Interest income	15.5	24.2	55.9	8.9	272.7	
Borrowing costs	(58.5)	(41.8)	(28.5)	(149.2)	28.0	
EBT	124.8	187.9	50.5	321.8	58.4	
Gain of divestment of investment properties	2.0	0.0	nm	0.0	nm	
Gains from revaluation	28.1	4.5	(84.1)	93.3	4.8	
Gains from derivatives	46.2	23.3	(49.6)	0.0	nm	
Total return before tax	201.1	215.7	7.2	415.0	52.0	
Tax	(2.2)	(1.1)	(47.5)	(4.3)	26.2	
Total return - reported	199.0	214.5	7.8	410.7	52.2	
Total return (ex exceptionals)	124.7	186.8	49.8	317.4	58.8	
Add-back: Non tax deductibles	2.8	(19.5)	nm	52.7	(37.1)	
Deduct: Net change on revaluation of investment properties	(28.1)	(4.5)	(84.1)	(93.3)	4.8	
Income available for distribution	173.6	190.9	10.0	370.1	51.6	
Distribution from capital	0.7	0.9	21.1	0.0	nm	
Distributable income	175.5	192.6	9.8	370.1	52.1	
Number of units (end of period) (m)	2,404.1	2,407.8	0.2	2,409.1	99.9	
DPU (SGD-cts)	7.30	8.00	9.6	15.36	52.1	
NAV	2.07	2.10	1.7	2.06	102.2	
Payout ratio (%)	101.0	100.9	(0.1) ppt	100.0		
NPI margins (%)	70.4	68.3	(2.1) ppt	70.9		

Source: RHB

Figure 3: Key metrics performance

Operating Performance:	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Portfolio Occupancy: (%)	85.6	86.8	87.7	88.8	89.0
Rental Reversion: (%)	6.3	7.7	4.4	6.6	9.1
DPU (SG cts)	3.66	3.59	3.71	3.84	4.16
	FY-1	FY-2	FY-3	FY-4	FY-5
Lease Expiry Profile: (Income %)	10.2	21.2	20.4	13.4	8.4
Capital Management:	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
All-in cost of borrowing: (%)	2.7	2.7	2.7	2.8	2.7
Aggreg. Leverage: (%)	32.6	33.6	33.5	34.7	34.6
Term of Debt: (yrs)	4.0	3.9	3.6	3.8	3.6

Source: Company

Figure 4: A-REIT's dividend discount model (DDM) valuation

	FY16F	FY17F	FY18F	FY19F	FY20F	Terminal value
DPU (SGD cents)	15.37	15.90	16.05	16.14	16.39	268.81
Fair value (SGD)	2.55					
Current price (SGD)	2.45					
Price upside (%)	4.1					
Distribution yield (%)	6.3					
Total return (%):	10.4					
Assumptions:						
Risk-free rate (%)	3.0					
Beta	0.8					
Cost of equity (%)	7.5					
Terminal growth (%)	1					

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover	614	673	717	742	752
Property operating expenses	(178)	(211)	(209)	(216)	(219)
Net property income	436	463	508	526	532
Management fees	(36)	(38)	(40)	(40)	(41)
Trust expenses	(5)	(6)	(7)	(7)	(7)
Operating EBIT	395	419	462	479	485
Depreciation of fixed assets	(1)	(0)	(0)	(0)	(0)
Operating EBITDA	396	419	462	479	485
Net income from investments	131	47	93	95	96
Other recurring income	20	(46)	-	-	-
Interest income	30	8	9	7	5
Interest expense	(66)	(114)	(149)	(151)	(152)
Other non-recurring income	(5)	89	-	-	-
Pre-tax profit	505	404	415	430	434
Taxation	(23)	(7)	(4)	(4)	(4)
Profit after tax & minorities	482	398	411	425	430
Reported net profit	482	398	411	425	430
Adjustment for distributable income	(143)	(50)	(41)	(42)	(42)
Total distributable income	339	348	370	383	388

Source: Company data, RHB

Cash flow (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Operating profit	395	419	462	479	485
Depreciation & amortisation	1	0	0	0	0
Change in working capital	5	(10)	39	26	28
Other operating cash flow	(29)	(150)	(132)	(136)	(139)
Operating cash flow	372	259	369	368	374
Interest paid	36	105	149	151	152
Tax paid	(1)	(2)	-	-	-
Cash flow from operations	407	362	518	520	526
Capex	(102)	(99)	(67)	(5)	(5)
Other new investments	(51)	(304)	-	-	-
Other investing cash flow	18	(235)	(0)	(0)	(0)
Cash flow from investing activities	(135)	(638)	(67)	(5)	(5)
Dividends paid	(326)	(261)	(370)	(383)	(388)
Increase in debt	170	577	63	15	25
Other financing cash flow	(70)	(68)	(173)	(173)	(177)
Cash flow from financing activities	(226)	249	(480)	(542)	(539)
Cash at beginning of period	20	66	42	49	21
Total cash generated	46	(27)	(29)	(27)	(18)
Forex effects	0	1	-	-	-
Implied cash at end of period	66	40	12	21	3

Source: Company data, RHB

Financial Exhibits

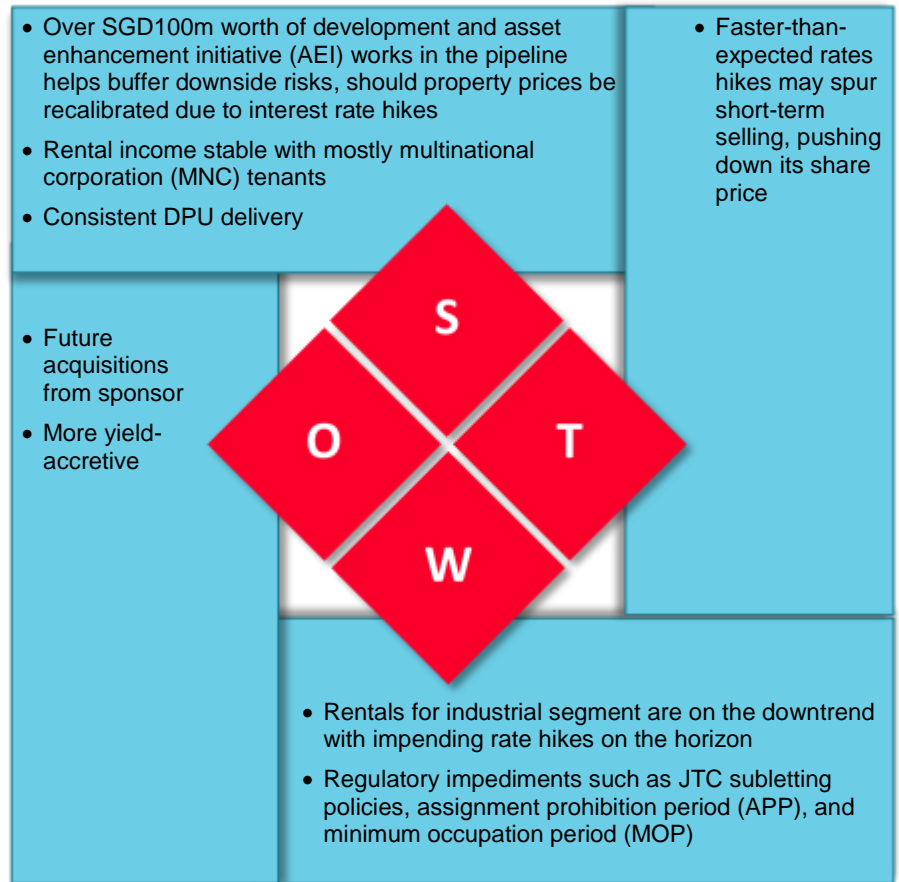
Balance Sheet (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total cash and equivalents	66	42	49	21	3
Accounts receivable	66	90	59	61	62
Other current assets	13	26	-	-	-
Total current assets	144	157	108	82	65
Total investments	6,923	7,868	7,923	8,023	8,124
Total other assets	290	135	286	296	296
Total non-current assets	7,213	8,003	8,209	8,319	8,420
Total assets	7,357	8,160	8,316	8,401	8,485
Short-term debt	946	286	350	350	350
Accounts payable	127	189	169	174	177
Other current liabilities	33	33	31	33	35
Total current liabilities	1,107	507	550	557	561
Total long-term debt	1,231	2,442	2,666	2,681	2,706
Other liabilities	171	198	148	148	148
Total non-current liabilities	1,402	2,640	2,814	2,829	2,854
Total liabilities	2,509	3,147	3,364	3,386	3,415
Share capital	4,849	5,014	4,952	5,015	5,070
Shareholders' equity	4,849	5,014	4,952	5,015	5,070
Total equity	4,849	5,014	4,952	5,015	5,070
Total liabilities & equity	7,357	8,160	8,316	8,401	8,485

Source: Company data, RHB

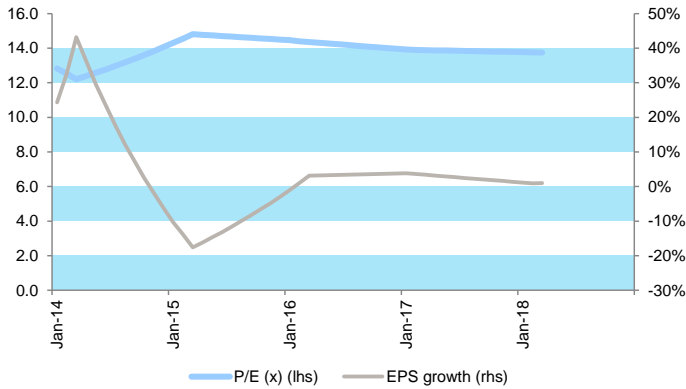
Key Ratios (SGD)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Revenue growth (%)	6.6	9.8	6.5	3.4	1.3
Net profit growth (%)	43.3	(17.5)	3.3	3.5	1.1
EPS growth (%)	43.2	(17.6)	3.2	3.4	1.0
BVPS growth (%)	3.9	3.3	(1.4)	1.1	1.0
Net profit margin (%)	78.5	59.0	57.2	57.3	57.2
Return on average assets (%)	6.7	5.1	5.0	5.1	5.1
Return on average equity (%)	10.1	8.1	8.2	8.5	8.5
Net debt to equity (%)	43.5	53.6	59.9	60.0	60.2
DPS	0.14	0.15	0.15	0.16	0.16
Recurrent cash flow per share	0.17	0.15	0.22	0.22	0.22

Source: Company data, RHB

SWOT Analysis

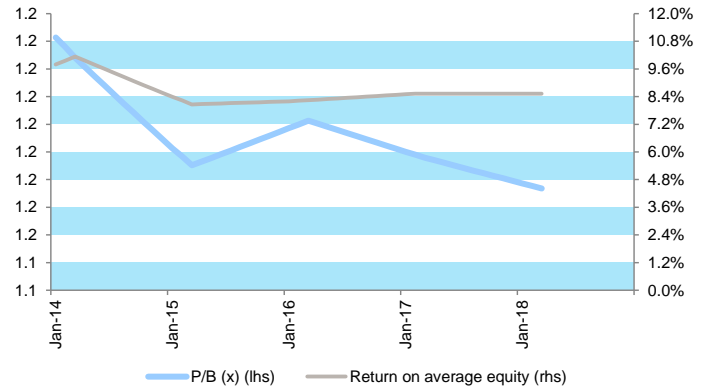


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Ascendas Real Estate Investment Trust (A-REIT) is a property trust constituted by a trust deed. A-REIT owns and invests in a diverse, income-producing portfolio of business parks (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-21	Buy	2.35	2.26
2015-09-01	Buy	2.35	2.18
2015-07-23	Neutral	2.51	2.44
2015-04-24	Neutral	2.60	2.67
2015-01-23	Take Profit	2.50	2.57
2014-10-23	Buy	2.50	2.30
2013-07-17	Buy	2.48	2.24
2013-04-16	Neutral	2.76	2.76
2013-03-11	Neutral	2.73	2.58
2013-01-15	Neutral	2.67	2.48

Source : RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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