

Ascendas REIT (AREIT SP)

Property - REITS

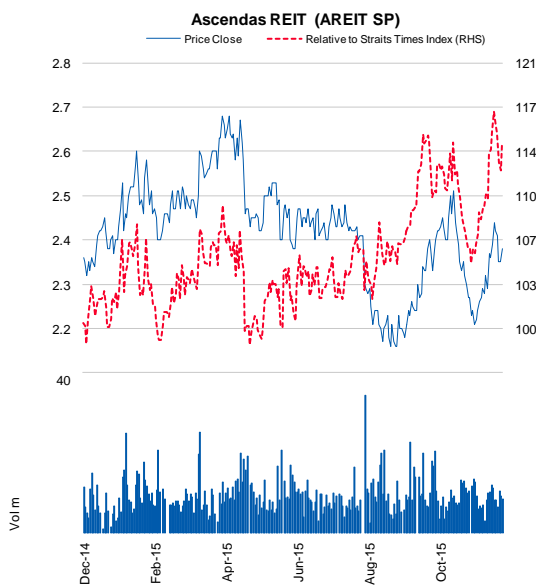
Market Cap: USD4,077m

Buy (Maintained)

 Target Price: **SGD2.50**

 Price: **SGD2.38**

It Is Business This Time

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	22.9m/16.3m
Cons. Upside (%)	7.1
Upside (%)	5.0
52-wk Price low/high (SGD)	2.16 - 2.68
Free float (%)	83
Share outstanding (m)	2,410
Shareholders (%)	
Ascendas Pte Ltd	17.1
Matthews International	9.4
Blackrock	5.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	3.5	10.2	(0.8)	3.9
Relative	15.0	8.5	11.0	13.0	17.2

Ivan Looi +65 6232 3841
ivan.looi@rhbgrou.com
Ong Kian Lin +65 6232 3896
ong.kian.lin@rhbgrou.com

We think the One@Changi City acquisition is fairly priced, as it stands to benefit from close proximity to existing/future MRT stations and has rental growth potential (as most of the leased spaces are under the market rent rate) – Ascendas REIT is raising equity too (amounting to SGD408m), mainly to fund this exercise. Thus, we lower our FY16F-17F DPU by 0.6-0.9%. Maintain BUY with a lower SGD2.50 TP (from SGD2.55, 5% upside), implying 11.5% total returns.

- ◆ **Third acquisition for Ascendas REIT this year, this time a business park.** Ascendas REIT has announced the acquisition of a 9-storey business park building, One@Changi City, for a price consideration of SGD420m. This translates into a yield of approximately 6%. The asset would be acquired from both parent Ascendas Development Pte Ltd and Frasers Centrepoint Ltd, which own a 50% stake each. The purchase is to be half funded by issuance of units, with the balance paid via cash.
- ◆ **Transaction is fairly-priced, considering the great locality.** We think that at a 6% cap rate valuation is reasonably-priced. Bear in mind that the asset is poised to benefit from its close proximity with an existing as well as future mass rapid transit (MRT) stations. To put it in perspective, the average pricing of the independent valuers is SGD438m, representing a 4.2% discount to the average valuation.
- ◆ **Private placement priced fixed at SGD2.223 – raising a total of SGD408m.** Ascendas REIT mentioned that the gross proceeds of at least SGD408m from the equity fundraising exercise would be mainly used: i) for the acquisition of One@Changi City (55%), ii) to partially fund a potential acquisition of a logistics property in Australia (20%), and iii) be used for funding debt repayments and future acquisitions (24%).
- ◆ **Maintain BUY with a lower SGD2.50 TP (from SGD2.55).** As we factor in the acquisition and the larger unit base, we think that it would not be yield-accretive. In view of this, we lower our FY16/FY17 (Mar) DPU forecasts by 0.6%/0.9% respectively, resulting in a lower SGD2.50 TP. We maintain our BUY recommendation, as we still think there is potential upside base to our valuation. In addition, we like Ascendas REIT's exposure to the business park space.

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)	11.7	18.5	13.9	13.5	13.4
P/B (x)	1.18	1.14	1.16	1.14	1.13
Dividend Yield (%)	6.0	6.1	6.4	6.7	6.7
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: Details of One@Changi City

Details on One@Changi City	
Purchase consideration	SGD420.0m
Acquisition fee to Manager	SGD4.2m
Stamp Duty and other transaction costs	Approx. SGD14.7m
Total acquisition cost	SGD438.9m
Vendor	Ascendas Frasers Pte Ltd (Ascendas Development Pte Ltd and Frasers Centrepoint Limited)
Valuation	SGD436.6m by DTZ, SGD439.0m by Knight Frank. Average: SGD437.8m
TOP Date	2-Nov-12
Land Area	505,567 sq ft
Land Tenure	53 years remaining
GFA	765,938 sq ft
NLA	679,267 sq ft
Occupancy	97.1%

Source: Company data, RHB

We like its strategic location, with quality anchor tenants and room for organic growth. We like the asset as its location is strategically next to the Expo MRT station. One@Changi City is also set to be served by the Downtown Line upon the latter's expected completion in 2017. In addition, the asset is almost fully-occupied (97.1%), with quality anchor tenants such Credit Suisse (Singapore) Ltd and JP Morgan. We also expect the new addition to provide room for rental growth, as 92% of the leased space is approximately 14% below the current market rent rate.

Figure 2: We lower our FY16/FY17 DPU forecasts by 0.6/0.9% respectively

(SGD cts)	<u>FY3/16F</u>	<u>FY3/17F</u>	<u>FY3/18F</u>	<u>FY3/19F</u>	<u>FY3/20F</u>
DPU - new	15.28	15.76	15.93	16.03	16.28
Growth (%)	4.5	3.1	1.1	0.6	1.5
DPU - old	15.37	15.90	16.05	16.14	16.39
Difference (%)	(0.6)	(0.9)	(0.7)	(0.6)	(0.7)

Source: RHB

Figure 3: Ascendas REIT's DDM valuation

	<u>FY16F</u>	<u>FY17F</u>	<u>FY18F</u>	<u>FY19F</u>	<u>FY20F</u>	<u>Terminal value</u>
DPU (SGD cents)	15.28	15.76	15.93	16.03	16.28	262.44
Fair value (SGD)	2.50					
Current price (SGD)	2.38					
Price upside (%)	5.0					
Distribution yield (%)	6.4					
Total return (%):	11.5					
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	722	773	783
Property operating expenses	(178)	(211)	(210)	(221)	(224)
Net property income	436	463	513	552	559
Management fees	(36)	(38)	(42)	(42)	(43)
Trust expenses	(5)	(6)	(7)	(7)	(7)
Operating EBIT	395	419	464	502	509
Depreciation of fixed assets	(1)	(0)	(0)	(0)	(0)
Operating EBITDA	396	419	464	502	509
Net income from investments	131	47	93	100	101
Other recurring income	20	(46)	-	-	-
Interest income	30	8	9	8	7
Interest expense	(66)	(114)	(149)	(151)	(152)
Other non-recurring income	(5)	89	-	-	-
Pre-tax profit	505	404	417	459	465
Taxation	(23)	(7)	(4)	(4)	(4)
Profit after tax & minorities	482	398	413	455	461
Reported net profit	482	398	413	455	461
Adjustment for distributable income	(143)	(50)	(40)	(46)	(47)
Total distributable income	339	348	373	409	414

Source: Company data, RHB

Cash flow (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Operating profit	395	419	464	502	509
Depreciation & amortisation	1	0	0	0	0
Change in working capital	5	(10)	39	27	29
Other operating cash flow	(29)	(150)	(132)	(135)	(136)
Operating cash flow	372	259	372	395	402
Interest paid	36	105	149	151	152
Tax paid	(1)	(2)	-	-	-
Cash flow from operations	407	362	521	546	554
Capex	(102)	(99)	(67)	(5)	(5)
Other new investments	(51)	(304)	(420)	-	-
Other investing cash flow	18	(235)	(0)	(0)	(0)
Cash flow from investing activities	(135)	(638)	(487)	(5)	(5)
Dividends paid	(326)	(261)	(373)	(409)	(414)
Proceeds from issue of shares	-	-	420	-	-
Increase in debt	170	577	63	15	25
Other financing cash flow	(70)	(68)	(171)	(151)	(177)
Cash flow from financing activities	(226)	249	(60)	(545)	(566)
Cash at beginning of period	20	66	42	52	48
Total cash generated	46	(27)	(26)	(4)	(17)
Forex effects	0	1	-	-	-
Implied cash at end of period	66	40	15	48	31

Source: Company data, RHB

Financial Exhibits

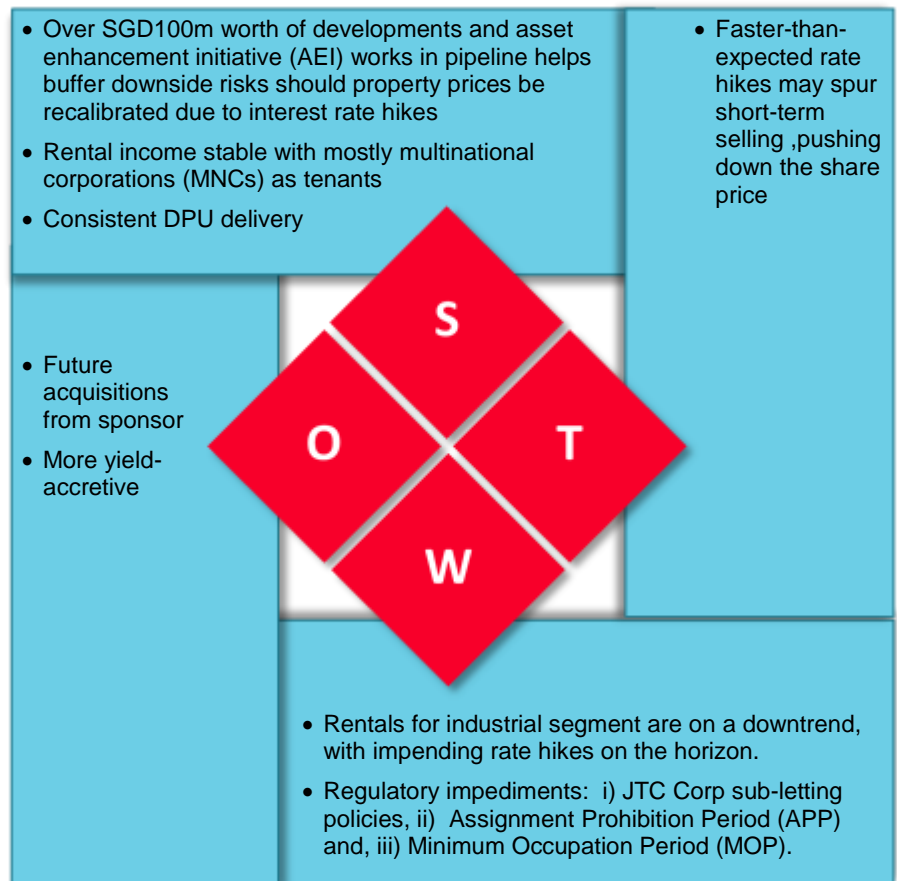
Balance Sheet (SGDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total cash and equivalents	66	42	52	48	31
Accounts receivable	66	90	59	63	64
Other current assets	13	26	-	-	-
Total current assets	144	157	111	111	95
Total investments	6,923	7,868	8,343	8,448	8,555
Total other assets	290	135	286	296	296
Total non-current assets	7,213	8,003	8,629	8,744	8,851
Total assets	7,357	8,160	8,740	8,856	8,946
Short-term debt	946	286	350	350	350
Accounts payable	127	189	169	178	181
Other current liabilities	33	33	31	33	35
Total current liabilities	1,107	507	551	561	565
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	3,365	3,390	3,419
Share capital	4,849	5,014	5,375	5,466	5,526
Shareholders' equity	4,849	5,014	5,375	5,466	5,526
Total equity	4,849	5,014	5,375	5,466	5,526
Total liabilities & equity	7,357	8,160	8,740	8,856	8,946

Source: Company data, RHB

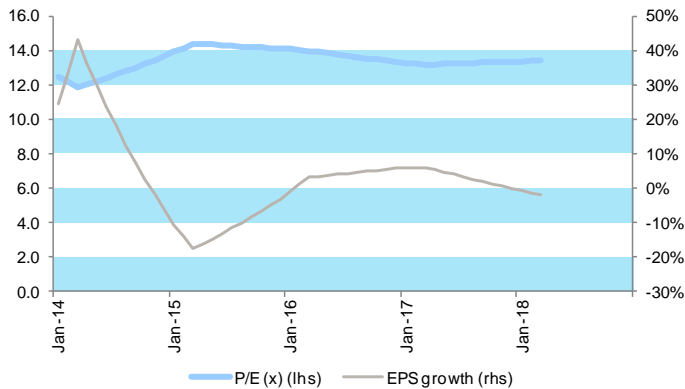
Key Ratios (SGD)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Revenue growth (%)	6.6	9.8	7.3	7.0	1.3
Net profit growth (%)	43.3	(17.5)	3.8	10.2	1.3
EPS growth (%)	43.2	(17.6)	3.1	6.1	(1.8)
BVPS growth (%)	3.9	3.3	5.7	(4.3)	1.0
Net profit margin (%)	78.5	59.0	57.1	58.9	58.9
Return on average assets (%)	6.7	5.1	4.9	5.2	5.2
Return on average equity (%)	10.1	8.1	7.9	8.4	8.4
Net debt to equity (%)	43.5	53.6	55.2	54.6	54.7
DPS	0.14	0.15	0.15	0.16	0.16
Recurrent cash flow per share	0.17	0.15	0.22	0.22	0.21

Source: Company data, RHB

SWOT Analysis

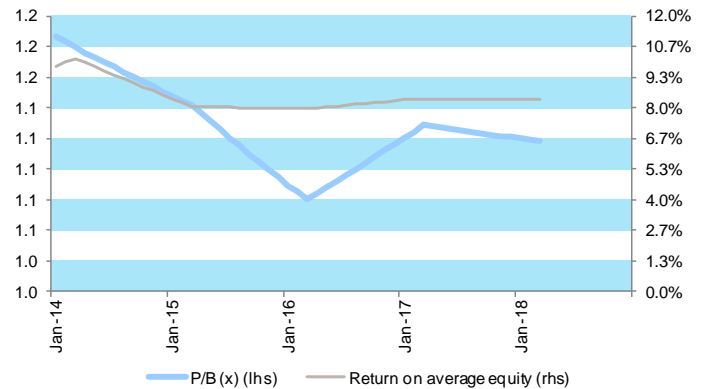


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

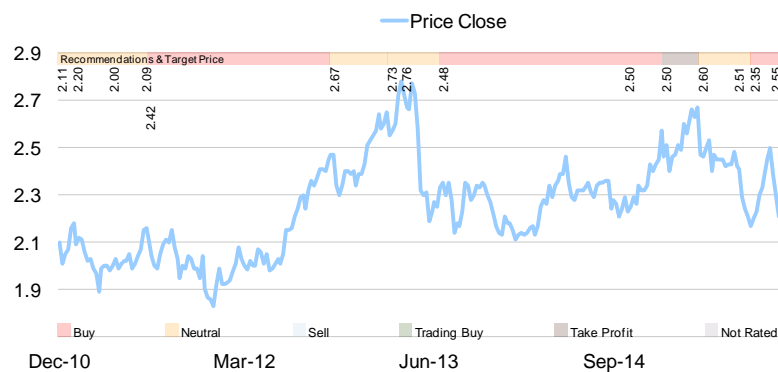


Source: Company data, RHB

Company Profile

Ascendas REIT is a property trust constituted by a trust deed. It owns and invests in a diverse, income producing portfolio of business parks (including science parks), light industrial, high tech industrial and logistics properties in Singapore.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-10-23	Buy	2.55	2.50
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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

Take Profit: Target price has been attained. Look to accumulate at lower levels

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Bangkok

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799