

8 July 2022

Property | REITS

## Ascendas REIT (AREIT SP)

**Buy** (Maintained)

### Defensive Shelter In Volatile Times; BUY

Target Price (Return): SGD3.60 (+25%)  
 Price (Market Cap): SGD2.89 (USD8,639m)  
 ESG score: 3.33 (out of 4)  
 Avg Daily Turnover (SGD/USD) 31.9m/23.2m

- **BUY, SGD3.60 TP, 25% upside.** Ascendas REIT, Singapore's largest and well-diversified industrial REIT, offers a good mix of defensiveness and growth potential amid a volatile macroeconomic environment. Recent refined fee structures will save costs and alleviate some of the pressures from rising utility charges. The REIT has also been boosting its logistics exposure, by acquiring seven logistics assets in the US. Its valuation is attractive – at 1.2x FY22F P/BV, offering a 5.5% dividend yield.
- **Management fee savings a positive, will mitigate rising utility charges.** AREIT has inked new management agreements that will take effect from Oct 2022 for the next 10 years. As a part of its new Singapore property management agreement, it will be responsible for all car park management site staff costs, opex and capex (vs previously, when it paid carpark management fees of SGD2.16m and 40% of hourly carpark income). The new structure will result in additional revenue of SGD3.9m pa (based on FY21 numbers) and cost savings of ~SGD1.6m pa. These savings should mitigate the impact of the rising utility charges – at c.8% of opex and expected to rise ~50% this year as a result of higher electricity tariffs.
- **Seven new US logistics assets will improve income stability.** In May, AREIT announced the acquisition of seven freehold logistics assets in Chicago for USD99m (SGD133m). The assets are fully occupied (no single tenant accounts for >20%), with a WALE of 5 years and come with an initial NPI yield of 5.3%. The leases also have a built-in rental step-up rate of 2-3% pa. The acquisition comes on the heels of its Oct 2021 acquisition of 11 last-mile logistics assets in Kansas City for USD156m (SGD208m). Post-transaction logistics assets account for c.25% of its portfolio, with the US becoming the largest market outside of Singapore – accounting for 15% of its portfolio. The transaction will be funded by debt, and is yield-accretive – with a post-acquisition gearing still at a modest c.37%.
- **Rental growth set to continue offsetting interest rate impact.** AREIT's portfolio assets had a 1Q positive rent reversion rate of +4.6% (FY21: +4.5%), with all segments and markets leased seeing rental growth – Australia (+16.5%), US (+14%) and Singapore (+3.9%). This, in our view, should more than mitigate rising interest rates. c.79% of loans are on fixed terms with an average tenure of 3.7 years, and every 20bps increase in interest rates will have a marginal 0.4% impact on DPU. The REIT also has a high natural hedge (c.75%) for its overseas property income, with local currency borrowings mitigating recent volatilities in FX rates.
- **AREIT has the highest ESG score of 3.3 out of 4.0**, among the industrial REITs (based on our proprietary in-house methodology) – reflecting its committed ESG efforts over the years. As this score is three notches above our country median, we applied a 6% premium to our intrinsic value to derive our TP.

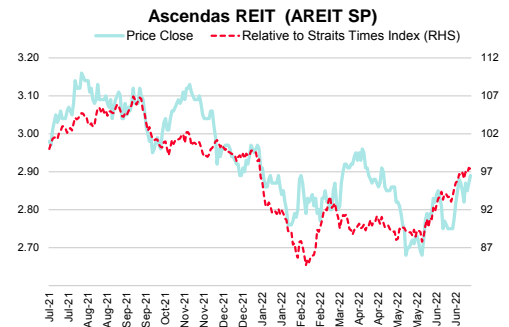
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.0)	2.5	(0.7)	(0.7)	(3.0)
Relative	(2.2)	5.7	7.4	1.7	(2.6)
52-wk Price low/high (SGD)	2.68 – 3.16				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,302	1,335	1,386
Net property income (SGDm)	776	921	970	992	1,019
Reported net profit (SGDm)	457	957	747	585	597
Total distributable income (SGDm)	431	455	506	521	531
DPS (SGD)	0.15	0.15	0.16	0.16	0.17
DPS growth (%)	26.3	3.9	4.8	2.4	1.6
P/B (x)	1.19	1.20	1.21	1.21	1.21
Dividend Yield (%)	5.1	5.3	5.5	5.7	5.8
Return on average equity (%)	5.5	10.1	7.5	5.8	6.0
Return on average assets (%)	3.2	5.8	4.2	3.2	3.3

Source: Company data, RHB

#### Overall ESG Score: 3.33 (out of 4)

##### E: EXCELLENT

Ascendas REIT has the largest number of BCA Green mark properties (40) total portfolio (49), largest number of public EV charging points (76) and largest combined solar farm (>21,000 solar panels) in Singapore by SREIT.

##### S: GOOD

Its approach to health and safety is guided by its Occupational Health and Safety Management System (OHSMS) accredited to ISO 45001. The group also has internal targets to ensure that at least 92% of vendors (attain a Level 3 in bizSAFE and above) and zero cases of validated discrimination.

##### G: EXCELLENT

High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

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## Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	0.14	0.23	0.18	0.14	0.14
Property	EPS (SGD)	0.13	0.25	0.18	0.14	0.14
<b>Ascendas REIT</b>	DPS (SGD)	0.15	0.15	0.16	0.16	0.17
AREIT SP	BVPS (SGD)	2.43	2.42	2.38	2.38	2.38
Buy	Return on average equity (%)	5.5	10.1	7.5	5.8	6.0
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.23	4,203.88	4,209.86
<b>Valuation basis</b>						
DDM	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	20.57	12.50	16.26	21.01	20.60
	P/E (x)	21.80	11.77	16.11	20.77	20.37
	P/B (x)	1.2	1.2	1.2	1.2	1.2
	FCF Yield (%)	5.6	5.0	9.1	9.3	9.1
	Dividend Yield (%)	5.1	5.3	5.5	5.7	5.8
	EV/EBITDA (x)	- 2.46	- 2.84	- 2.89	- 2.88	- 2.85
	EV/EBIT (x)	- 2.47	- 2.84	- 2.89	- 2.88	- 2.85
<b>Key drivers</b>						
i. Diversified industrial assets, with high exposure to business parks and the logistics sector;						
ii. Being the largest and most liquid of S-REITs;						
iii. Strong and capable sponsor.						
<b>Key risks</b>						
i. High industrial supply and shorter land leases in Singapore;						
ii. Tenant defaults and rental pressure;						
iii. Government policy measures impacting industrial space.						
<b>Company Profile</b>						
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 park), as well as light industrial, hi-tech industrial and logistic properties in Singapore.						
	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	1,049	1,227	1,302	1,335	1,386
	EBITDA	702	820	863	884	910
	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	863	884	910
	Net interest	(159)	(159)	(172)	(185)	(197)
	Pre-tax profit	494	1,044	783	621	634
	Taxation	(37)	(86)	(36)	(36)	(37)
	Recurring net profit	484	901	740	578	591
	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	20	(83)	158	169	143
	Cash flow from operations	729	727	1,123	1,156	1,155
	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(30)	(30)	(50)
	Dividends paid	(598)	(378)	(506)	(521)	(531)
	Cash flow from financing activities	479	1,277	(988)	(1,108)	(1,095)
	Cash at beginning of period	96	278	369	473	490
	Net change in cash	223	89	104	18	11
	Ending balance cash	278	369	473	490	501
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	278	369	473	490	501
	Total investments	14,318	16,898	17,013	17,128	17,264
	Total other assets	453	376	382	387	396
	Total assets	15,123	17,730	17,944	18,084	18,242
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	5,041	5,341	5,441
	Total liabilities	5,933	7,453	7,640	7,762	7,900
	Shareholders' equity	8,892	9,978	10,005	10,023	10,043
	Minority interests	299	299	299	299	299
	Total equity	9,191	10,277	10,304	10,322	10,342
	Net debt	4,210	5,366	5,543	5,625	5,714
	Total liabilities & equity	15,123	17,730	17,944	18,084	18,242
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	50.1	16.9	6.1	2.5	3.8
	Recurrent EPS growth (%)	12.3	64.5	(23.1)	(22.6)	2.0
	Operating EBITDA margin (%)	66.9	66.9	66.3	66.2	65.7
	Net profit margin (%)	43.6	78.0	57.4	43.8	43.1
	Dividend payout ratio (%)	117.8	65.8	90.0	117.8	117.4
	Capex/sales (%)	16.3	13.0	2.3	2.2	3.6
	Interest cover (x)	4.38	5.16	5.02	4.77	4.61

Source: Company data, RHB

Figure 1: AREIT's DDM valuation

	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SGD cents)	16.0	16.4	16.9	17.4	361.8
Fair value (SGD)	3.40				
ESG Premium/(discount)	0.20				
<b>Target Price (SGD)</b>	<b>3.60</b>				
Current price (SGD)	2.89				
Price upside (%)	24.5				
Distribution yield (%)	5.5				
Total returns (%)	30.0				
<b>Assumptions:</b>					
Risk-free rate (%)	2.8				
Beta	0.7				
Cost of equity (%)	6.4				
Terminal growth (%)	1.5				

Source: RHB

Figure 2: Asset breakdown by geography (total value: SGD16.5bn)

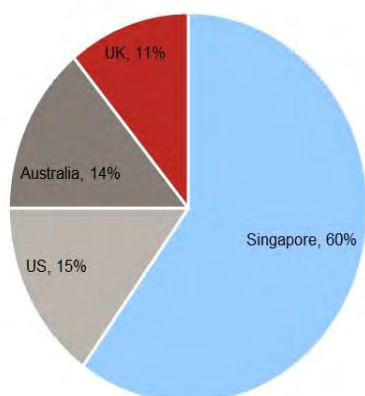
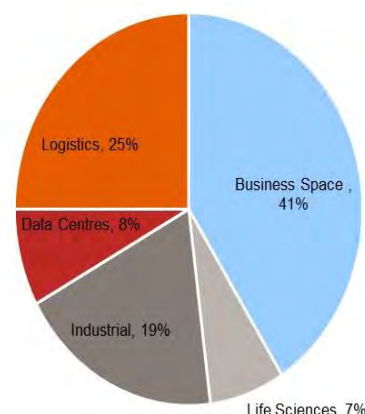


Figure 3: Asset breakdown by segment



Source: Company data

Source: Company data

Figure 4: AREIT has positive rental reversion rates across segments and markets

% Change in Renewal Rates for Multi-tenant Buildings <sup>(1)</sup>	1Q FY2022	4Q FY2021	1Q FY2021
<b>Singapore</b>	<b>3.9%</b>	<b>2.3%</b>	<b>2.9%</b>
Business Space <sup>(2)</sup> and Life Sciences <sup>(3)</sup>	3.6%	2.2%	2.8%
Logistics <sup>(4)</sup>	1.5%	3.1%	5.6%
Industrial <sup>(5)</sup> and Data Centres	4.4%	1.8%	-0.3%
<b>Australia</b>	<b>16.5%</b>	<b>_(6)</b>	<b>_(6)</b>
Business Space	16.5%	_(6)	_(6)
Logistics	_(6)	_(6)	_(6)
<b>United States</b>	<b>14.0%</b>	<b>0.9%</b>	<b>6.2%</b>
Business Space	12.2%	18.9%	6.2%
Logistics	26.4%	0.0%	N.A.
<b>United Kingdom/Europe</b>	<b>_(6)</b>	<b>6.2%</b>	<b>_(6)</b>
Data Centres	_(6)	6.2%	_(6)
Logistics	_(6)	_(6)	_(6)
<b>Total Portfolio :</b>	<b>4.6%</b>	<b>2.9%</b>	<b>3.0%</b>

- (1) Percentage change of the average gross rent over the lease period of the renewed leases against the preceding average gross rent from lease start date. Takes into account renewed leases that were signed in their respective periods and average gross rents are weighted by area renewed.
- (2) Business Space segment includes properties located in business & science parks in Singapore, suburban offices in Australia as well as business park and office properties in USA.
- (3) Life Science segment comprises properties with lab-ready specifications (currently 7 business park properties in Singapore)
- (4) Includes Courts Megastore and Giant Hypermart which have been reclassified from Integrated development, amenities and retail (IDAR) segment. These properties have large warehouse spaces (under the Retail Warehouse Scheme).
- (5) Comprises high-specifications and light industrial properties (includes Aperia which has been reclassified from IDAR segment given its predominant industrial space offering).
- (6) There were no renewals signed in the period for the respective segments.

Source: Company

## Recommendation Chart

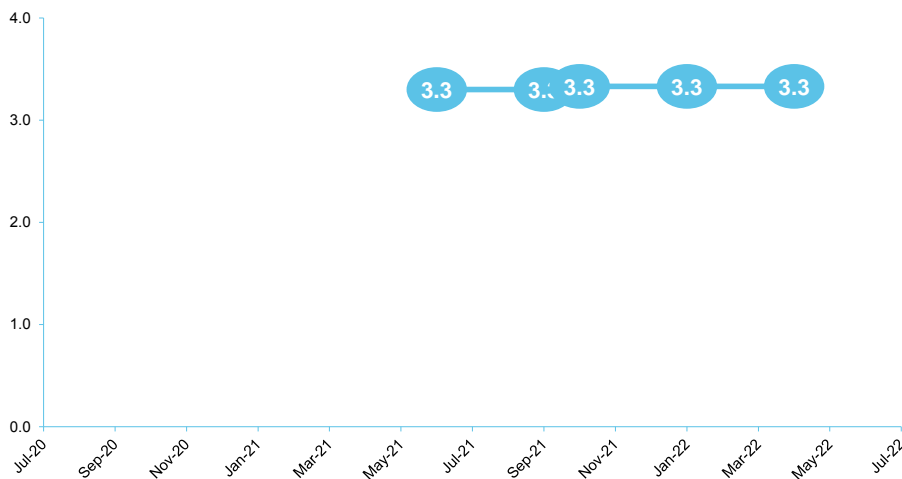


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-09	Buy	3.60	2.88
2021-12-15	Buy	3.60	2.93
2021-10-20	Buy	3.60	3.04
2021-08-02	Buy	3.50	3.12
2021-06-21	Neutral	3.20	2.93
2021-03-18	Neutral	3.20	3.07
2021-02-03	Neutral	3.15	3.16
2020-04-19	Neutral	3.00	2.89
2020-02-02	Buy	3.10	3.15
2019-11-04	Neutral	3.00	3.06
2019-10-10	Neutral	3.00	3.09
2019-04-30	Neutral	2.90	2.94
2019-03-07	Neutral	2.90	2.78
2018-10-26	Buy	2.90	2.52
2018-10-16	Buy	2.90	2.45

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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