Asia Credit Research

Earnings Review: AIMS AMP Capital Industrial Trust ("AAREIT")

Recommendation

- Despite the weaker top line, AAREIT's 4QFY2018 interest coverage (including contribution from Macquarie Park) remains commendable at 4.1x, with aggregate leverage healthy at 33.5%. We had observed AAREIT engaging in development/redevelopment versus inorganic expansions in managing its portfolio.
- We prefer the AAREIT 4.35% '19s over ESR-REIT's EREIT 3.95% '20. The AAREIT 4.35%'19s provide a pick-up of 40bps for a bond that matures six months earlier. We have both AAREIT and ESR-REIT's issuer profiles at Neutral (4).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
AAREIT 4.35% '19	05/12/2019	33.5%	3.37%	143
EREIT 3.95% '20	21/05/2020	30.0%	3.06%	104

Indicative prices as at 30 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (4)

Ticker: **AAREIT**

Background

AIMS AMP Capital Industrial REIT is an industrials focused-REIT with total assets of SGD1.5bn as at 31 March 2018. AAREIT currently owns 25 properties in Singapore (one sold in March 2018) and a 49%-stake in a property located in Australia. AAREIT is sponsored by Australia-based AIMS Financial Group and AMP Capital.

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Key Considerations

- **4QFYE March 2018 ("4QFY2018") results boosted by revaluation gains:** Gross revenue decreased 8.4% y/y to SGD28.0mn, mainly due to lower rental and recoveries from 20 Gul Way as certain parts of the property is now under multi-tenanted leases (this property contributes 20% of total portfolio value), expiry of the master lease at 3 Tuas Avenue 2 and lower occupancies at 27 Penjuru Lane. This was partly offset by rental contribution from 30 Tuas West Road (redevelopment completed in December 2017 and income producing since February 2017) and the newly redeveloped property at 8 Tuas Avenue 20 (TOP obtained on 29 August 2017, 83.2% currently occupied). Despite the top line decline, property operating expenses declined less at only 2.5% y/y, resulting in a fall in net property income of 11.5% y/y to SGD17.7mn. Encouragingly, AAREIT reported a small revaluation gain of SGD2.1mn in 4QFY2018 against a revaluation loss of SGD54.6mn in 4QFY2017. AAREIT reported total return after tax of SGD20.7mn against a loss of SGD39.2mn in 4QFY2017. On a q/q basis, the gross revenue fall was not as significant at only 2.9% (3QFY2018: SGD28.9mn), mainly due to lower occupancies at two properties. AAREIT has shared that some of these occupancies have been since filled.

- **Interest coverage lower:** EBITDA (based on our calculation which does not include other income and other expenses) was 12.6% lower y/y at SGD15.8mn. Interest expense rose 3.9% y/y to SGD4.9mn mainly due to previously capitalised interest expense during development of two properties now being expensed instead given that they have reached TOP, resulting in EBITDA/Interest of 3.3x in 4QFY2018 against 3.9x in 4QFY2017. In the 12 months for FY2018, AAREIT received SGD15.7mn in cash dividends, taking a quarter of this dividend as EBITDA, we find Adjusted EBITDA/Interest at 4.1x. AAREIT holds 49%-stake in a joint venture which owns Optus Centre in Macquarie Park and we think this better reflects interest coverage at AAREIT.

- **Aggregate leverage healthy:** As at 31 March 2018, aggregate leverage was healthy at 33.5% (slightly down versus 33.8% in end-2017). Short term borrowings were SGD188.2mn as at March 2018, significant at 38% of total debt. The company has shared that in April 2018, AAREIT had received commitments to refinance existing secured facilities due in November 2018 and February 2019 to FY2023 and FY2024 instead, thus significantly reducing refinancing risk. Secured debt was 25% of total assets, which was higher versus its immediate peers in the Industrial REITs space though undrawn committed available facilities of SGD132.3mn helps provide financial flexibility to AAREIT (eg: to fund property redevelopments at 3 Tuas Avenue 2).

- **Concentration to CWT Pte Limited ("CWT") has reduced though portfolio remains concentrated:** In 4QFY2018, CWT is now the second largest tenant contributing 13.0% to rental income, significantly lower than the 20% in 4QFY2017, we think this is a reflection of CWT taking up less space at 20 Gul Way (Master Lease ended in 2017). AAREIT's reported portfolio occupancy was 90.5%, higher than 88.4% in 3QFY2018 (90.5% excludes 3 Tuas Avenue 2). Versus other Industrial REITs, AAREIT still has a concentrated tenant profile, with top ten tenants making up 57.9% of gross rental income in 4QFY2018.

- **Weighted average lease expiry ("WALE") stable:** WALE at AAREIT was 2.6 years as at 31 March 2018 (excludes 3 Tuas Avenue 2 which is being redeveloped). By gross rental income, 18.0% of leases will come due by end March 2019. This is significantly lower than the 27.1% of leases which were going to expire in one year standing at 31 March 2017. We had observed AAREIT actively engaging in developments and redevelopments in managing its portfolio (versus buying new assets to boost operational metrics). For example, 3 Tuas Avenue 2 which is being planned for redevelopment was earlier on a master lease that was not renewed.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

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To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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Other

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