Asia Credit Research

Earnings Review: Ascendas REIT ("AREIT")

Recommendation

- Despite the sector-wide downturn for industrial properties, AREIT's credit profile continues to be defensive, with its Australian properties providing geographical diversification.
- The AREIT 4.75%-PERP only pays a spread of 88bps, 35 bps wider than AREIT 2.95% '20s. We are underweight the perpetual and recommend a switch into Frasers Hospitality Trust's FHREIT 4.45%-PERP which is paying 110 bps more, adjusting for tenure. In our view, this more than compensates for FHREIT's smaller scale. We have both AREIT and FHREIT's issuer profile at Neutral (3).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield to Worst	Spread
AREIT 2.95% '20	03/08/2020	34.4%	2.62%	53
AREIT 4.75%-PERP	14/10/2020	34.4%	2.99%	88
FHREIT 4.45%-PERP	12/05/2021	33.1%	4.32%	212

Indicative prices as at 26 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (3)

Ticker: **AREIT**

Background

Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with total assets of SGD10.4bn as at 31 March 2018. AREIT owns a diversified portfolio of 99 properties in Singapore and 31 properties in Australia. AREIT is sponsored by Ascendas-Singbridge group, which has a deemed interest of 20.3% in AREIT.

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Key Considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by acquisitions**: Gross revenue increased 3.3% to SGD215.7mn mainly due to acquisitions of three new properties in Australia (acquired from April 2017 to September 2017), full period contribution from 12, 14, 16 Science Park Drive (acquired in February 2017) and completion of redevelopment works at 50 Kallang Avenue. This was partly offset by divestment of three investment properties in Singapore. Property-related expenses increased 5.5% y/y to SGD57.9mn in 4QFY2018, driven by the absence of a one-off property tax refund that was included in 4QFY2017. Back in 4QFY2017, there was a retrospective downward revision in the annual value of certain properties. Net property income thus saw a narrower growth at 2.5% y/y at SGD157.9mn. In contrast to 4QFY2017's SGD1.9mn, no performance fees were incurred in 4QFY2018. While AREIT did not elaborate, this is likely due to performance of the REIT not meeting the specified distributable per unit ("DPU") target. On a q/q basis, gross revenue in 4QFY2018 had declined 0.7% (3QFY2018: SGD217.3mn). 108 Wickham Street in Australia was bought on 22 December 2017 while 84 Genting Lane was sold on 19 January 2018. Removing the impact of these asset movements (ie: on a same-store basis), we estimate that AREIT's gross revenue has declined by 1.5% q/q.

- **Interest coverage lower:** EBITDA (based on our calculation which does not include other income and other expenses) was 4.4% higher y/y at SGD143.5mn. Reported finance cost was 22.3% y/y lower at SGD28.2mn (though 4QFY2017's finance cost had incorporated a loss on Exchangeable Collateralised Securities ("ECS") and other borrowing costs). Taking only interest expense given that the last of the ECS have all been exchanged into AREIT units and cancelled, we find adjusted EBITDA/Interest at 5.3x in 4QFY2018 versus 5.9x in 4QFY2017.

- **Aggregate leverage:** As at 31 March 2018, aggregate leverage was manageable at 34.4% (down somewhat from 35.2% in end-2017). While asset base had declined slightly by 0.14%, debt levels had declined following net repayment of debt by SGD78.7mn. Perpetuals outstanding was SGD304.4mn. Adjusting 50% of these as debt, we find adjusted aggregate leverage manageable at 36%. Short term debt was SGD909.9mn as at 31 March 2018, representing 26% of total gross debt (representing relatively significant refinancing coming due). Nonetheless, ~70% of these are likely related to revolving credit facilities which we think will be rolled forward. The remainder consists of bank borrowings. With SGD9.1bn of unencumbered assets, we see refinancing risk as manageable at the company.

- **Singapore portfolio:** Overall Singapore rental reversions for 4QFY2018 was at -6.8% against a slight positive of 0.5% for the full financial year. In particular, High-Specifications Industrial properties saw a -18.8% hit. AREIT's Singapore portfolio weighted average lease expiry ("WALE") was manageable at 4.0 years, higher than the typical 3.0 years seen for Industrial REITs. For the next 12 months to end-March 2019, 15.2% of gross revenue is due for renewal, largely driven by multi-tenanted buildings. With 27% of the expiring leases within the High-Specification Industrial properties sector, we think AREIT would face further lease rate pressures in the next 12 months. Management though have guided that overall rental reversion may see a slight improvement in FY2019. AREIT's Singapore occupancy have tilted up slightly to 89.5% as at March 2018 (end-2017: 88.8%) mainly due to higher occupancies at Techpoint, 20 Tuas Avenue 6 and Xilin Districentre Building D.

- **Australia portfolio:** There were no leases renewed during the quarter for the Australian portfolio. AREIT's Australian occupancy kept stable at 98.5% as at 31 March 2018. In line with what we observe with industrial property leases in Australia, AREIT's Australia WALE was longer at 5.1 years. For the next 12 months to end-March 2019, only 6.3% of gross revenue is due for renewal, driven by properties located in Brisbane.

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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.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

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.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with 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.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform 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.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
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