Asia Credit Research

ARA Asset Management Limited: Special Interest Commentary

Thursday, 08 November 2018

- ARA Asset Management Limited ("ARA") is a fund manager currently focused on the management of listed REITs, private REITs and private real estate funds.
- Treating the perpetuals as equity per its accounting treatment, we find ARA's net debt-to-adjusted EBITDA ratio having weakened from 0.1x in FY2016 to 2.1x in in 1H2018.However, ARA's growth ambitions are aggressive with aims to grow AUM from ~SGD35.1bn as at 30 September 2017 to SGD100bn by 2021. In line with this ambition, ARA's balance sheet has grown noticeably in the last three years.
- ARA has a credible asset management business with recurring income and cash flows. Its major shareholders (eg: Straits Trading, Mr. John Lim, CK Asset) are also a credit positive, which facilitates growth of the business and an eventual re-listing, if it so chooses. Constraining ARA is its limited on-going visibility as a privately held entity and high proportion of perpetuals within its capital structure (34% as at 30 June 2018).
- We take the conservative view that the perpetuals function as equity for its common shareholders. This is also in line to how the perpetuals are recorded in ARA's financials. The ARASP 5.2%-PERP is yielding 7.88% in perpetuity while the ARASP 5.65%-PERP is yielding 7.52%.

OCBC Credit Research currently does not cover ARA given that it is a private company that does not release audited financials publicly. We have presented this paper as a special interest commentary. Per information memorandum dated 12 February 2018, AVIC Trust Co., Ltd ("AVIC Trust"), a China-based investment and trust manager, is a strategic investor in ARA, owning an indirect 20.48%-stake. Oversea-Chinese Banking Corporation Limited ("OCBC Bank") has an indirect ownership stake in ARA via the bank's 19.9988%-ownership stake in AVIC Trust.

Background: ARA, incorporated in Bermuda is a privately held fund manager focused on the management of listed REITs, private REITs and private real estate funds. In addition to fund management, ARA also provides property management services to the underlying real estate owned by the funds.

As at 30 September 2017, ARA's assets under management were SGD35.1bn. In a bid to expand its assets under management ("AUM"), ARA had (1) In March 2018, announced the setting up of its European business (2) In May 2018, announced that it is planning to launch a USD1.0bn maiden infrastructure fund. ARA is new to both Europe as well as the infrastructure asset class. In December 2017, ARA bought a ~21%-stake in Tokyo-listed Kenedix, Inc ("Kenedix"), an independent real estate asset management company. In March 2018, ARA announced the acquisition of a 19.5%-stake in Cromwell Property Group ("Cromwell"), an Australian-listed real estate asset management company who is also the Sponsor of Singapore-listed Cromwell REIT ("CERT"). ARA holds its stake in Kenedix and Cromwell as associates.

ARA was formerly listed on the SGX though delisted on 19 April 2017 following a take-private exercise by Mr. John Lim, its CEO/Founder, Warburg Pincus and other investors. Based on the latest available public information, deemed shareholders of ARA include: Warburg Pincus (30.72%), Straits Trading (20.95%), AVIC Trust (20.48%), Mr. John Lim (19.85%), and CK Asset Holdings Limited ("CK Asset", formerly Cheung Kong Property Holdings Limited) (8.00%). ARA was established in July 2002 by Mr. John Lim and a subsidiary of then listed Cheung Kong (Holdings) Limited ("CK Holdings"). CK Holdings had a 30%-stake at the time of establishment though this had declined to 15.6% in March 2008, following ARA's IPO and further declined with the introduction of new shareholders.

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Key credit considerations:

- **Portfolio diversity by asset type and location:** As at 30 June 2018, ARA and its associates manage around SGD78.2bn in gross assets across 62 cities and 20 countries according to the company's public information. As at 30 September 2017, ARA's reported assets under management ("AUM") was SGD35.1bn, excluding those managed by associates. These comprise more than 90 properties with ~57 million sqft in gross floor area managed. AUM is concentrated predominantly across Singapore, China, Hong Kong with exposures in Australia, South Korea and Malaysia. Assets are managed through a mix of five listed REITs, six private REITs, nine private real estate funds and real estate management contracts (we think typically for assets where it is also REIT manager). By far the most important contributor to ARA's performance are those of its listed REITs (Hui Xian REIT, Suntec REIT (Issuer Profile: Neutral (4)), Fortune REIT, Prosperity REIT, Cache Logistics Trust) which comprise the bulk of the AUM. ARA's 30%-stake in the REIT manager of AmFIRST REIT was sold in January 2018. The REITs are invested primarily in retail and commercial real estate sectors. Such diversity lowers concentration risk by country and property segment.

- **Private Funds offer multiple platforms for growth**: Supplementing ARA's REIT asset management platform is ARA's Private Funds platform where ARA, as a private real estate manager, acts as both investor and manager in assets across Asia. Funds have a finite life with assets divested once investment objectives are met. ARA's private funds are currently invested across office, retail and integrated commercial development. With nine private funds currently in existence, investors and lenders have the option of investing in equity or debt instruments into various portfolios depending on specific investment objectives covering commingled funds, separate accounts, and single asset or portfolio deals. Fund sizes vary and in line with other private equity real estate players, ARA has a minority ownership stake in these funds. These funds could offer a pipeline of assets to inject into ARA's REITs at the end of the fund's life. For instance, reportedly five Malaysian retail mall assets (2.56 mn sqft of net lettable area) within ARA Harmony III can be injected into a new REIT, with a subsequent listing. Beyond retail and commercial, ARA has also set up a new arm to develop new funds for investments into infrastructure assets within its Private Funds business.

- **Strong track record of operations:** ARA's diversity has translated into stable historical growth in AUM (AUM at time of IPO was USD4.7bn/~SGD7.2bn). Key to recent growth has been the rise in AUM from private real estate funds. While acquisition, divestment and performance fees tend to be volatile, of note is the consistent growth in management fees which are recurring. Overall, recurring revenues related to REIT management fees, portfolio management fees and real estate management services fees comprise around 80% of total revenues, which provides predictability of cash flow. The listed REITs themselves have also established a long track record of stable operations, with Fortune REIT, Suntec REIT and Prosperity REIT established over 10 years ago.

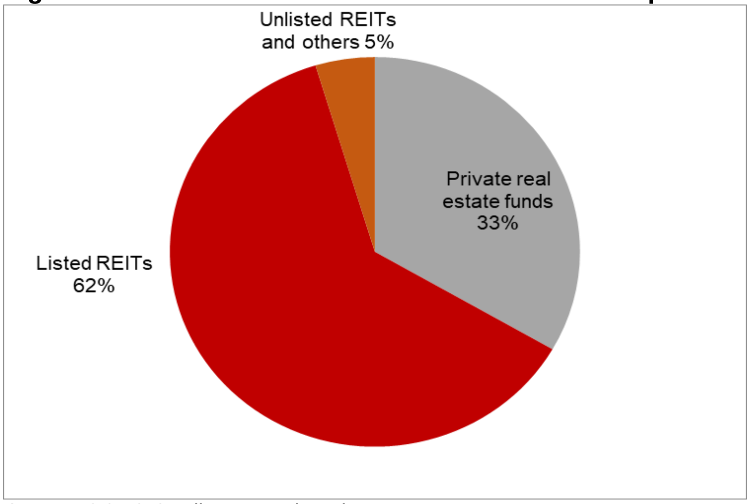
- **Credit metrics have weakened post-privatisation:** ARA's financial metrics have been historically sound given its asset light strategy. However, ARA's growth ambitions are aggressive with aims to grow AUM from ~SGD35.1bn as at 30 September 2017 to SGD100bn by 2021 (eg: through acquisition of other fund platforms to grow AUM to generate more recurring income and new asset classes). In line with this ambition, ARA's balance sheet has grown noticeably in the last three years. In FY2017, it acquired a 20.94% stake in Kenedix, Inc, one of Japan's largest independent real estate asset management companies with over JPY2tr in AUM by end-2017. More recently in June 2018, ARA completed the acquisition of a 19.5% interest in Australia based Cromwell Property Group with a direct property investment portfolio in Australia valued at AUD2.5bn and total AUM of AUD11.5bn across Australia, New Zealand and Europe. ARA's Kenedix, Inc. investment was funded through a mix of debt and perpetuals and as a result, ARA's net debt-to-EBITDA ratio (which treats the perpetuals as equity as per accounting treatment) weakened from 0.1x in FY2016 to 0.8x in FY2017. Based on ARA's publicly available financial extracts for 1H2018, we find the net debt-to-EBITDA ratio at 2.1x. In contrast, ARA was in a net cash position in FY2015. A second IPO is being contemplated to occur in the medium term, though no listing plans have been set in stone. We expect ARA's leverage to rise as it continues to be in a high growth phase.

A) Company Overview & Analysis:

ARA earns its income from:

(i) Being a manager to REITs (both listed and private REITs) and private real estate funds.
(ii) Being a property manager to underlying real estate assets owned by REITs and private real estate funds.
(iii) Minority stakes in REITs and private real estate funds where it is also the manager.
(iv) Since December 2017, from holding significant minority stakes in other listed real estate asset management companies (Kenedix and Cromwell).

Figure 1: Estimated Breakdown of AUM as at 30 September 2017



Source: OCBC Credit Research estimates

Existing AUM

ARA has an AUM of SGD35.1bn as at 30 September 2017, of which we estimate that 67% of this come from REITs. We think listed REITs in Hong Kong (three REITs), Singapore (two REITs) and one in Malaysia form the bulk of total REIT AUM. ARA held a 30%-stake in Bursa-listed AmFirst REIT's REIT manager which manages SGD511mn in assets, though in January 2018, ARA had entered into an agreement to sell this 30%-stake to Amcorp Properties Berhad.

We expect REITs to continue as a significant part of AUM. In January 2018, ARA recruited Mr. Chia Nam Toon (formerly CEO of Ascendas REIT) to become an Assistant CEO of ARA/CEO of REITs and Business Development with a mandate to grow the existing REITs and to develop new REITS across Asia, the USA and Europe.

As at 30 September 2017, about 33% of the SGD35.1bn in AUM (or SGD11.7bn) relates to nine private real estate funds. While there is less transparency on these funds given their private nature, we estimate that ~SGD4.0bn of this relates to one fund, the ARA Harmony VI, a single-asset fund which is invested in Century Link, retail cum office property in Shanghai. There has been no recent news of ARA launching new retail and/or office private funds. We expect the proportionate contribution from retail and office related private real estate funds to decline over time as the underlying assets get monetised and the funds eventually liquidated.

Based on ARA's publicly available financial extracts, in 1H2018, ARA received SGD83.5mn in management fees. Assuming ARA's asset under management had stayed constant, this implies ARA receives 0.4%-0.5% per annum in management fees per annum on a blended basis (ie: across listed and unlisted REITs and private real estate funds) by our calculations.

Growth Plans: Infrastructure Funds

In March 2018, ARA announced its intention to kick start an infrastructure funds business. In April 2018, Mr. Grant Dooley (previously from Hastings Fund Management) joined ARA to head up and build ARA's capabilities in the infrastructure asset management business. One of ARA's shareholders, CK Asset is the sister company to CK Infrastructure Holdings Limited, a global owner and operator of infrastructure assets. ARA is targeting to launch a USD1.0bn (~SGD1.37bn) fund. The investment mandate will likely target infrastructure assets in investment-grade countries across Europe and Asia.

ARA is targeting medium-sized infrastructure businesses in sectors including energy, utilities, transport and communications. Typically, such assets have pricing power (eg: monopolistic) with steady demand. Compared to 25 years ago, infrastructure is now an important alternative asset class, especially among liability-driven asset owners (eg: pension funds). The infrastructure fund management industry has a small number of dominant asset managers, though the availability of bankable, cash-generating investment targets tends to be more limited as well. The sector is dominated by players such as Macquarie and Brookfield with more than SGD100bn of AUM each. Other smaller but significant infrastructure asset managers include IFM, JP Morgan AM, Deutsche AM, Goldman Sachs, Alinda, Hastings Fund Management, AMP Capital and Colonial First State.

Being a new player in the infrastructure funds space, we expect ARA to fund a larger proportion of seed capital into the maiden fund. Our base case assumes ARA manages to launch its maiden fund and for ARA to fund ~SGD411mn (or 30%) of the required AUM progressively.

Growth Plans: Europe

ARA operates country desks in local markets to develop understanding and facilitate capital flow. In March 2018, ARA announced the setting up of a new European desk, based in London in a move to expand beyond its traditional market of Asia. Mr. Mark Ebbinghaus, a banking veteran was appointed as Senior Advisor of ARA's Europe Desk. At ARA, Mr. Ebbinghaus is responsible for identifying business and investment opportunities for ARA in Europe, including REITs, private funds and other fund management-related platforms via mergers and acquisitions. Additionally, CERT which is 34%-owned by Cromwell, in turn owns offices and industrial assets across Europe. By value, assets of this REIT are largely located in the Netherlands, Italy and France.

B) Listed REITs:

This segment comprises five long established REITs with assets across Asia-Pacific and in the retail, commercial and logistics sectors.

Table 1: ARA-managed listed REITs

REIT	Year of Listing	ARA's stake in REIT Manager	Listing Location	Asset Description	Total Assets
Suntec REIT	2004	100%	SGX	Prime office and retail properties in Singapore and Australia	SGD9.4bn (30 September 2018)
Fortune REIT	2003	100%	HKEx, SGX	16 suburban retail malls in Hong Kong	HKD42.0bn (30 June 2018)
Prosperity REIT	2005	100%	HKEx	3 Grade A office buildings, 1 commercial building, 2 industrial/office and 1 industrial property in Hong Kong	HKD11.2bn (30 June 2018)
Cache Logistics Trust	2010	100% (from July 2018 onwards, increasing from 60%)	SGX	27 high quality logistics warehouse properties in Singapore (10), Australia (16) and China (1)	SGD1.3bn (30 September 2018)
Hui Xian REIT	2011	30%	HKEx	5 commercial property projects in China comprising offices, apartments, malls and hotels (Beijing, Chongqing, Shenyang, Chengdu)	RMB47.1bn (30 June 2018)

Note: (1) ARA had sold its 30%-stake in the REIT manager of AmFirst REIT in January 2018

The five listed REITs currently managed by ARA were set up with ARA's involvement since the beginning of the REIT's formation. At the time of each REIT's IPO, ARA held a significant stake (if not outright full ownership) in all the respective REIT Managers. ARA, CK Holdings and CK Asset have had a long working relationship since the formation of ARA, with CK Holdings being the 30%-stake owner at time of formation.

Three listed REITs, namely Fortune REIT, Prosperity REIT and Hui Xian REIT were sponsored by CK Asset. Despite CK Asset not being a Sponsor for Suntec REIT, Dr. Li Ka Shing (an ultimate controlling shareholder of CK Asset) was an investor of Suntec REIT at time of IPO. For Hui Xian REIT, the REIT Manager at time of IPO was a joint venture between CITIC Securities (40%), CK Holdings (30%) and ARA (30%), though in January 2018, CITIC Securities has sold its stake to CK Asset.

ARA's listed REIT management business is still reliant on on-going business relationships with CK Asset and CK Holdings (as a function of CK Holdings being a founding shareholder of ARA together with Mr. John Lim). In recent years, ARA had gradually diversified and forged new business relationships. For example, Cache Logistics Trust's REIT Manager and property manager was originally owned by ARA and CWT Ltd (whose logistics assets formed the initial portfolio) though in July 2018, ARA had bought out CWT's stake in the managers and now owns **100% of both**.

Role of REIT Manager

- Sets strategic direction of the REITs (including entering new markets and asset classes) to drive sustainable growth while maintaining steady income stream for unitholders
- Identifying specific assets for acquisitions, divestments, asset enhancement that can increase the value of the properties. Negotiating each transaction, fundraising and overall capital management
- Ensure the REIT is run properly on a day-to-day basis. Establishing framework for effective internal controls. Ensure that financial, operational, compliance, information technology risks are well managed
- Ensure that the REIT complies with all applicable laws, rules and regulations
- Oversee the property management services provided by the property managers (eg: lease management, collection of rents, implementing marketing activities, facilities management)
- In practice, REIT Managers are set up before the REIT is listed with REIT Managers involved in the pre-IPO process to ensure an eventual successful listing. Particularly for REITs owned by Sponsor, REIT Managers would be also heavily involved in the asset selection for the IPO portfolio. In such cases, it is also common for REIT Management team to include members who were formerly working for Sponsor with a deep knowledge of the IPO portfolio assets.

C) Unlisted REITs:

Overview

This segment comprises of six funds focused on South Korea. While unlisted real estate funds are common in South Korea, the listed REIT space in South Korea is underdeveloped. In April 2014, ARA entered the South Korean market by buying over two funds from Macquarie that were focused on the office space. The National Pension Service of South Korea are the main investors of these two unlisted REITs. ARA has two other REITs focused on residential development which it launched in partnership with Shin Young, a property developer in South Korea. Two other REITs launched in 2017 focuses on Grade A offices and listed REITs in the Asia-Pacific region respectively.

While we do not have the exact breakdown of total AUM from unlisted REITs, we infer that the total AUM from this segment is only up to SGD1.6bn in AUM (representing a maximum ~5% of total AUM as at 30 September 2017). Assuming that each of these funds have a fund life of ten years and adjusting for the respective AUM, we estimate that these funds have a weighted remaining fund life of seven years.

D) Private Real Estate Funds:

Overview

This segment comprises of nine funds focused on the Asia-Pacific region (including Australia). Of the nine private real estate funds, we think three are in the divestment phase where ARA would be looking to monetize the assets so that capital can be distributed back to its investors at the fund level. ARA has built up a strong reputation in private real estate funds and unlike listed REITs which holds stabilized assets, these private real estate funds focus on opportunistic, core-plus, value-added and development assets. ARA though does not take development risk of the underlying real estate based on our understanding.

As at 30 September 2017, the nine private funds collectively have an AUM of ~SGD11.7bn. Typical private real estate fund life ranges from five to ten years. Conservatively, we assume that bulk of ARA's private funds have a seven-year finite life. We estimate weighted fund life at three years, based on their respective vintage years. Bulk of these funds are fully invested and unless fund lives are extended, we would expect them to enter harvesting phase in the near-term (if not already).

ARA's direct stakes in funds (typically a minority stake that forms the seed capital for funds) varies from fund to fund. We expect the proportion to be higher for maiden funds where ARA needs to build a track record in.

Apart from capital committed by fund investors, we expect private real estate funds to be geared up, with property assets owned by the funds serving as security for lenders. We assume that loan-to-value ratio is capped at 70% for commercial properties owned by these funds. Listed REITs are invariably geared vehicles as well, though under Singapore regulations, the aggregate leverage (total debt-to-asset ratio) cap is 45%.

Assets where it fits best

Private real estate funds tend to have finite lives although in practice, extension options may be included where fund lives can be extended. Existing and/or new investors can also be sought for private funds to be rolled-over. We think this is even more so for stabilized assets with natural long-term investors (pension funds and life insurers). For example, ARA Harmony II was first set up in September 2009 to acquire and manage the Suntec Singapore Convention & Exhibition Centre ("SSCEC"), with its first initial five year-term ending on 30 September 2014 and now in its subsequent term.

Private real estate funds can also take life in a different form, with ARA still being the manager after the initial investors exit. For example, ARA Harmony III holds a portfolio of retail assets in Malaysia. These assets were originally part of a flagship private fund managed by ARA (now fully liquidated). ARA is reportedly looking to list Malaysian-based assets from ARA Harmony III into a REIT. Should this happen, it is possible for ARA to be the new REIT's REIT manager (or at least own a stake in the REIT manager) and thus earning a management fee. Other alternatives could involve assets owned by listed REITs being repackaged into a private fund. ARA is able to transfer assets to and from its various platforms and/or between funds where it fits best at that particular juncture of an assets' life.

Table 2: Private Real Estate Funds

Private funds	Asset Class	Anchor Investors	Key Exposure
ARA Asia Dragon Fund II ("ADF II")	Strategic and opportunistic investments in retail, office and residential segments	NA	China, Malaysia
ARA China Investment Partners ("CIP")	Core-plus investments in office and retail properties	California Public Employees' Retirement System ("CalPERS")	Key cities in China
Morningside Investment Partners ("MIP")	Value-add investments in office and retail properties	US-based public pension fund	Singapore, Hong Kong
Peninsula Investment Partners ("PIP")	Core/core-plus investments in prime office, retail and logistics properties	Asian-based sovereign wealth fund	Across Asia Pacific
ARA Harmony II	Single asset, SSCEC	Suntec REIT owns a 60.8% in ARA Harmony II	Singapore
ARA Harmony III	Income producing retail properties	SingHaiyi, Straits Real Estate[1]	Malaysia
ARA Harmony V	Single-asset fund holding 9 Penang Road (formerly Park Mall) for redevelopment	SingHaiyi, Haiyi Holdings Pte Ltd[2] Suntec REIT	Singapore
ARA Harmony VI	Single-asset, Century Link (office, retail podium and car parks)	An unnamed Asian insurer (reportedly China Life) and PIP	Shanghai, China
SDF I (ARA Summit Development Fund I)	Development projects with value enhancement potential	Straits Real Estate[1]	Australia and South East Asia

Source: ARA Information Memorandum dated 12 February 2018, ARA annual reports and news runs
Note: (1) Straits Real Estate is 89.5%-owned by Straits Trading Company and 10.5% by Mr. John Lim's family office
(2) Haiyi Holdings Pte Ltd is owned by Mr. Gordon Tang and Ms. Celine Tang, who are also the major Shareholders of SGX-listed SingHaiyi

Concentration to ARA Harmony VI

- We estimate that ARA Harmony VI has total assets of SGD4.0bn and makes up 34% of total private fund AUM. It makes up 11% of total AUM as at 30 September 2017.
- This private real estate fund was set up to invest in Century Link, a commercial development connected to an interchange hub for Shanghai's subway line (ie: Century Avenue station) in the Lujiazui Finance and Trade Zone in Pudong New District,

Shanghai, China.

- At point of investment in October 2016, Century Link was a newly completed property.
- The property was purchased from CK Asset and Li Ka Shing (Overseas) Foundation.
- According to Colliers, a property consultant, Grade A office vacancy for Pudong, Shanghai is 12.3% as at 30 June 2018 versus only 6.8% in end-2016.
- Anchor tenants include the PICC Asset Management, Caitong Asset Management and Willis Towers Watson, Kr Space (a co-working space operator focused on China).

Figure 2: Location of Century Link

Source: Baidu map

E) Financial Analysis:

- **Recurring income and income from stakes held in REITs supports interest servicing and perpetual distribution:** Based on ARA's publicly available financial extracts for 1H2018, revenue in the first six months of 2018 rose by 11% y/y to SGD90.3mn. This includes SGD6.8mn in acquisition, divestment and performance fees. Recurring management fees made up the bulk of revenue with SGD83.5mn (up 5% y/y from 1H2017). Recurring management fees are made up of (1) REIT management fees (2) Portfolio management fees (which are mostly from private funds) and (3) Real estate management service fees (provision of management services for commercial real estate including SSCEC, largely from REITs). Based on our calculation which includes finance income (distributions from the listed REITs) which we consider normal part of ARA's business), we find 1H2018 EBITDA at SGD60.0mn, up 7% y/y while finance cost tripled to SGD6.5mn in 1H2018 (1H2017: SGD2.1mn). Taking out acquisition, divestment and performance fees which tend to be lumpier, we find adjusted EBITDA for 1H2018 at SGD53.2mn (down 2% y/y). We find adjusted EBITDA/Interest healthy at 8.1x. As at 30 June 2018, ARA has ~SGD600mn in outstanding perpetuals and assuming all distributions to perpetuals (SGD32.6mn p.a.) are paid out, we find Adjusted EBITDA/(Interest plus perpetual distribution) significantly lower at 2.3x.

- **Conservative case:** In the conservative case where (1) There is no new growth driver at ARA to generate new income (2) The existing private real estate funds get liquidated, rather than extended and/or repackaged into a different form where ARA remains as manager and (3) REITs stay status quo rather than growing larger, we estimate that ARA would only have AUM of SGD23.4bn. Under this scenario, we estimate EBITDA/(Interest plus perpetual distribution) at 1.1x. With first call date in 2022 and reset date in 2024 for the ARASP 5.2%-PERP and for the ARASP 5.65%-PERP first call dates in 2023 and reset date in 2028, it is possible for existing private funds to be liquidated prior to that.

- **Termination of REIT Management contracts are a possibility, though low:** We take comfort that the base management fees from REITs (especially listed REITs) tend to be sticky and long term in nature given the infinite life of listed REITs. In practice, replacement of listed REITs would trigger change of control provisions in bond and bank loan documentation which can lead to an Event of Default. In our experience, this does not commonly occur. For REITs that are well managed, changes at the REIT manager level tend to be coordinated rather than a haphazard termination of REIT management contracts. Ownerships of REIT managers can also be monetized as we have seen in the past few months (eg: sale of VIVA Industrial Trust's REIT manager to ESR, sale of

CWT's stake in Cache Logistics Trust' REIT manager to ARA). Assuming that only the listed REITs are contributing, we estimate EBITDA/(Interest plus perpetual distribution) **at 0.9x**.

- **New associates provide upside:** By June 2017, ARA held 10.8mn shares (4.5%-stake) in Kenedix and by end-2017, ARA held 50mn (~21%-stake) in this real estate manager. Per ARA's 2017 audited financial extracts, ARA recorded SGD1.6mn in cash dividends from its associates. As this falls within historical levels, we assume these were from ARA's existing associates (including significant minority stakes held in property managers). In 2017, Kenedix paid JPY1.0bn (~SGD12.3mn) in cash dividends to its shareholders. In March 2018, ARA announced the acquisition of a 19.5% interest in Cromwell with the purchase approved by Australian regulators in May 2018. For the financial year ended June 2018, Cromwell paid cash dividends of AUD144.3mn (~SGD143.0mn). Taking the proportion owned by ARA, we estimate that it may receive SGD30.5mn in dividends from these new associates per year. Adding dividends from existing and new associates into Adjusted EBITDA, we find EBITDA/(Interest plus perpetual distribution) at 3.0x.

- **Management fees for listed REITs may be received in units:** Common across listed REITs, ARA receives management fees in units in the listed REITs (at least in part) and diluting unitholders in the process. REIT managers may receive units to smooth out cash Distribution Per Unit ("DPU") for unitholders. Using an October 2016 example where Fortune REIT paid units to ARA as REIT Management fees, the unit price was determined based on the market prices 10 business days preceding the date of issue of units. This illustrates that the unit price is linked to prevailing market prices (and not arbitrary). Net-net we are not overly concerned over payments in units as ARA's listed REITs have an active market where units can be sold for cash.

- **ARA's listed REIT units likely still pledged:** ARA is only deemed interested in underlying real estate properties via the minority stakes it holds in the funds (typically the seed capital) and does not hold any real estate assets directly. The largest assets which ARA holds as at 30 June 2018 are financial assets amounting to SGD717.3mn (SGD755.2mn as at 31 December 2017) and associates. Financial assets consist of the stakes in listed REITs, private REITs and private real estate funds. No breakdown was provided as at 30 June 2018 and 31 December 2017, although for 31 December 2016, listed REIT units had a book value of SGD266.3mn. As at 31 December 2016, 80% of its units in listed REITs have been pledged to obtain bank financing. Given that ARA still has outstanding bank debt, we think the pledge is still in place, making this asset less likely to be tapped for liquidity. Should ARA want to sell the listed units, lenders approval is likely needed (potentially involves paying down the loans).

- **Private funds and associates may provide liquidity if need be:** ARA's associates & joint ventures amounted to SGD891.8mn as at 30 June 2018, significantly rising from SGD451.4mn as at 31 December 2017 (up from SGD6.7mn in end-2016). We think this relates to the purchase of shares in Cromwell in 2018 and Kenedix in 2017. Both Kenedix and Cromwell are listed companies and ARA should be able offload these stakes in the market if it so chooses or use these stakes as collateral for borrowings (if not yet pledged). Excluding those held for trading, the stakes in private REITs and private real estate funds make up SGD260.0mn as at 31 December 2016 (no breakdown provided for 2017 or 30 June 2018). While unlisted stakes in the private REITs and funds are less liquid versus listed stakes, upfront liquidity can be generated from the private equity secondaries market or via collateralized fund obligations. In 1H2018, Azalea, a Temasek-owned asset manager has done this for investments in private equity funds.

- **Balance sheet has become more levered:** ARA's financial metrics have been historically sound given its asset light strategy as a listed company. Following ARA's take-private exercise, the company has intensified its expansion plans and aims to grow AUM to SGD100bn by 2021 (including via acquisitions and new asset classes). In line with this ambition, ARA's balance sheet has grown noticeably, with increases in debt and perpetuals (which now makes up 34% of total capital). A near term expansion into the infrastructure asset management business may require further seed capital and we expect the company to fund this externally, at least in part. Cash balance as at 30 June 2018 was SGD147.2mn against short term debt of SGD370.5mn.

Table 3: Selected balance sheet items

FYE December 2018 (SGDmn)	30 June 2018	31 December 2017	30 June 2017
Cash	147.2	93.3	79.5
Gross debt	370.5	180.1	171.4
Net debt	223.3	86.8	92.0
Perpetual	606.5	304.1	-
Common equity	797.3	844.0	673.0
Total equity	1,403.8	1,148.0	673.0
Adjusted debt (assume 100% of perpetuals as debt)	977.0	484.2	171.4
Adjusted net debt	829.8	390.9	91.9
Net gearing (net debt-to-total equity)	0.2x	0.1x	0.1x
Adjusted net gearing (adjusted net debt-to-common equity)	1.0x	0.5x	0.1x
Perpetual as a % of total capital	34%	23%	0%

Source: Company's publicly available financials extract for 1H2018, OCBC Credit Research

Table 4: Selected income statement items

FYE December 2018 (SGDmn)	1H2018	1H2017
Revenue	**90.3**	**81.4**
Management fees	83.5	79.3
Acquisition, divestment and performance fees	6.8	2.1
Finance income (distribution from listed REITs)	13.4	18.7
EBITDA	60.0	56.2
Adjusted EBITDA[1]	**53.2**	**54.2**
Finance costs	6.5	2.1
Share of profit of associates and joint ventures	21.8	2.3
Profit before tax	76.7	56.1
Tax expenses	(9.8)	(8.4)
Net profit	67.0	47.8
Adjusted EBITDA-to-Interest	8.1x	25.3x
Adjusted EBITDA-to-Interest and perpetual distribution	2.3x	25.3x
Net debt-to-adjusted EBITDA	2.1x	0.8x
Adj. net debt-to-adjusted EBITDA	**7.8x**	**0.8x**

Source: Company's publicly available financials extract for 1H2018, OCBC Credit Research
Note: (1) Adjusted EBITDA refers to EBITDA including finance income though excluding acquisition, divestment and performance fees.
(2) Assume SGD32.6mn per annum or SGD16.3mn semi-annually is paid in perpetual distribution
(3) ARA's perpetuals were issued in July 2017 and March 2018 respectively

F) Preliminary asset coverage analysis for perpetuals

Item	SGDmn
Market value of Kenedix stake	365.0
Market value of Cromwell stake	390.3
Financial assets – ARA's stake in private funds	405.1
Market value of ARA's stake in listed REITs, only amounts unpledged	15.5
Other financial assets (including those held for trading)	45.9
Total	**1,221.8**
(-) Gross debt	(370.5)
Remaining asset coverage	851.3
Perpetuals	606.5
Asset-to-perpetual coverage	1.4x

Source: OCBC Credit Research estimates
Note: (1) We assume that ARA's stake in Kenedix, Cromwell and private funds have not been pledged
(2) Market value of Kenedix and Cromwell stake as at 11 November 2018
(3) Market value of listed REITs as at 11 November 2018. driven by ARA's ownership in Cache Logistics Trust. Assume 80% of the listed stake in REITs has been pledged
(4) We assume the stakes in private funds financial assets and other financial assets are unpledged

G) Technical analysis:

Positives

- Recognizable brand name (from time when ARA was listed)
- Recognizable and diverse set of shareholders
- Change of control ("CoC") allows holders to put the perpetuals back to ARA: The issuer may redeem in whole but not in part at par following the occurrence of a CoC event. CoC event means (a) Mr John Lim, the Straits Trading Company Limited, Cheung Kong Property Limited (now CK Asset Holdings Limited), Warburg Pincus LLP and/or AVIC Trust, cease to own (whether individually or otherwise) 30%-stake in ARA. (b) Any person(s) that do not include parties in (a) and their immediate family acquire control of ARA or (3) ARA consolidates/merge/sell/transfer all or substantially all of ARA's assets

to any other person(s) unless this does not result in other person(s) acquiring control over ARA. In the event that a CoC has occurred, and the perpetuals are not redeemed, then the prevailing distribution rate will be increased by 3.0% ("Change of Control Margin")

Negatives

- Privately held entity with limited on-going disclosures publicly
- Lack of external credit rating
- High proportion of capital structure made up of perpetuals, which rank junior to straight debt
- No legal obligation to call at first call
- HoldCo-Opco subordination – debt at REIT and private funds take priority over both straight debt and perpetuals issued by ARA

Relative Value:

Issue	1st call-date	1st reset-date	Net debt/ EBITDA[1]	Net gearing[2]	Ask YTM[3]	Ask YTW	I-Spread on YTR
ARASP 5.2%-PERP	19-July-2022	19-July-2024	7.8x	1.0x	7.88%	5.67%	322
ARASP 5.65%-PERP	14-March-2023	14-March-2028	7.8x	1.0x	7.52%	5.93%	327

Source: Indicative prices per Bloomberg as at 8 November 2018
Note: (1) Adjusted net debt-to-adjusted EBITDA (assuming 100% of perpetual as debt; EBITDA including finance income though excluding acquisition, divestment and performance fees)
(2) Adjusted net gearing (assuming 100% of perpetual as debt over common equity)
(3) YTM per Bloomberg assumes a 149 years to maturity; proxy of yield in perpetuity

Given ARA's unique business model, we do not think there are good comparables in the SGD bond space. As there is neither step-up margin nor a reset applicable at first call, we take the first reset date as our base line. In the case of ARA, yield-to-worst is the yield-to-reset. For investors comfortable with the ARA curve, we think an additional yield of 26 bps is sufficient to compensate for the four year longer reset date on the ARASP 5.65%-PERP.

Regulated financial issuers aside, it is rare for SGD corporates to have more than 30% of their total capital made up of perpetuals. Considering that perpetuals make up 34% of ARA's capital base, we take the conservative view that the perpetuals function as equity for its common shareholders. This is also in line to how the perpetuals are recorded in ARA's financials. The ARASP 5.2%-PERP is yielding 7.88% in perpetuity while the ARASP 5.65%-PERP is yielding 7.52%.

H) Conclusion and Recommendation

ARA has a credible asset management business with recurring income and cash flows. Its major shareholders (eg: Straits Trading, Mr. John Lim, CK Asset) are also a credit positive, which facilitates growth of the business and an eventual re-listing, if it so chooses.

Constraining ARA is its limited on-going visibility as a privately held entity and high proportion of perpetuals within its capital structure. Taking the conservative view of holding to perpetuity, we think ARA provides better value versus other perpetual issuers in the SGD space. Other perpetuals trading wider are dragged by idiosyncratic factors including rents being attributable to a stressed issuer (eg: PT Lippo Karawaci Tbk) while versus ARA, Olam International Ltd is more levered.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

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