**Issuer Profile:**

Neutral (3)

Neutral (3)

**Ticker:**

AREIT

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# Ascendas Real Estate Investment Trust ("AREIT")

**Recommendation**

- **AREIT has completed the acquisition of 11 data centres in Europe in March 2021, growing its portfolio total assets to ~SGD16bn.**
- **The final price tag on the acquisitions (~SGD905mn for the European data centres, ~SGD1.0bn for properties in San Francisco and Sydney) linked to the SGD1.2bn equity fundraising is smaller than what we originally thought on 11 November 2020. This means that while we expect AREIT's reported aggregate leverage to increase from the acquisition, we revise this to ~36-37% (from 39% earlier). As as 31 December 2020, AREIT's reported aggregate leverage was 32.8%.**
- **Inorganic expansion drove AREIT to report higher y/y net property income by 7.8% in 2H2020, with a manageable EBITDA/Interest coverage of 4.6x. In the near term, we see the shake-up at its current Sponsor, CapitaLand Ltd ("CAPL", Issuer profile: Neutral (3)) as having little impact on AREIT's issuer profile. We have historically focused on the underlying performance of AREIT rather than factoring a CAPL uplift on the issuer profile of AREIT. As such, we maintain AREIT's issuer profile at Neutral (3).**
- **Bond Recommendation: In our view, parts of the AREIT curve now trades closer to its immediate peers as such we have lifted the AREIT 2.47% '23s, the green bond AREIT 2.65% '30s and the green perpetual, the AREIT 3.0%-PERP to neutral.**

**Relative Value:**

| Bond | Maturity / Call date | Aggregate Leverage | Ask YTM/YTC | Spread | Recommen-dation |
|---|---|---|---|---|---|
| AREIT 4.0% '22s | 03/02/2022 | 32.8% | 0.58% | 25bps | UW |
| AREIT 3.2% '22s | 03/06/2022 | 32.8% | 0.66% | 29bps | UW |
| AREIT 2.47% '23s | 10/08/2023 | 32.8% | 1.00% | 48bps | N |
| AREIT 3.14% '25s | 02/03/2025 | 32.8% | 1.40% | 54bps | UW |
| AREIT 2.65% '30s^ | 26/08/2030 | 32.8% | 2.36% | 77bps | N |
| AREIT 3.0%-PERP^ | 17/09/2025 | 32.8% | 2.76% | 180bps | N |
| CAPITA 2.8% '23s | 13/03/2023 | 40.6%[1] | 0.99% | 54bps | N* |
| CAPITA 3.2115% '23s | 09/11/2023 | 40.6%[1] | 1.13% | 56bps | N* |
| CAPITA 3.48% '24s | 06/08/2024 | 40.6%[1] | 1.33% | 60bps | N* |
| CAPITA 3.2% '25s | 21/08/2025 | 40.6%[1] | 1.62% | 67bps | N* |
| CCTSP 2.77% '22s | 04/07/2022 | 40.6%[1] | 0.90% | 53bps | N* |
| CCTSP 3.17% '24s | 05/03/2024 | 40.6%[1] | 1.18% | 54bps | N* |
| CCTSP 3.327% '25s | 21/03/2025 | 40.6%[1] | 1.60% | 74bps | N* |
| CAPLSP 3.65%-PERP | 17/10/2024 | 68.1%[2] | 3.16% | 239bps | UW* |
| MAPLSP 3.58% '29s | 13/03/2029 | 62.6%[2] | 2.38% | 93bps | N* |
| MRCOOP 3.08% '30s | 23/01/2030 | 82.6%[2] | 2.61% | 108bps | n.a |

*Indicative prices as at 12 April 2021 Source: Bloomberg*
*Aggregate leverage based on latest available financials*
*Note: (1) Reported aggregate leverage for CapitaLand Integrated Commercial Trust is used*
*(2) Unadjusted net gearing based on latest available financials*
**Based on Monthly Credit View (05 April 2021)*
*^ Denote green bonds and green perpetuals*

**Background**

- Ascendas REIT ("AREIT") is the largest business space and industrial REIT in Singapore, with a market cap as at 12 April 2021 of SGD12.8bn. Total assets were SGD15.1bn as at 31 December 2020, including interest in joint ventures. As at 31 December 2020, AREIT has a diversified portfolio of 96 properties in Singapore, 36 properties in Australia, 38 properties in the UK and 30 properties in the US.

- AREIT is Sponsored by CAPL which has a deemed interest of ~18% in AREIT. On 30 June 2019, CAPL completed the acquisition of Ascendas Pte Ltd and Singbridge Pte Ltd. AREIT announced a change in financial year end from 31 March to 31 December (matching CAPL's financial year end).
- AREIT is incorporated in Singapore while the SGD perpetual and bonds are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of AREIT.

**Recent Developments**

- **CapitaLand Ltd shake-up:** On 23 March 2021, CAPL and CLA Real Estate Holdings Pte Ltd ("CLA", the Offeror) announced a scheme of arrangement to acquire all shares of CAPL for SGD0.951 per share, undertake a capital reduction exercise to distribute 48.24% of the issued shares of CapitaLand Financial Ltd and 388,242,247 issued units of CapitaLand Integrated Commercial Trust ("CICT") (totalling 6% of outstanding shares of CICT) to all shareholders except the Offeror. CLIM will comprise all the listed REITs (including AREIT) and private funds of CAPL, among others. As mentioned in a separate update, we expect the announced transaction to have minimal impact on AREIT in the near term.

- **Acquisition of 11 data centres in Europe:** On 17 March 2021, AREIT completed the acquisition of a portfolio of 11 data centres in Europe for SGD904.6mn (SGD960.0mn including transaction costs). The portfolio consists of four properties in the UK, three in the Netherlands, three in France, and one in Switzerland. Altogether, the data centres have a net lettable area of 61,637 sqm. Six are located on freehold land and the remaining five are on leasehold land with a weighted average land lease to expiry of 42.9 years as at end-2020. Meanwhile, this portfolio will have a weighted average lease to expiry of 4.6 years by rental income. With this acquisition, AREIT will further diversify its portfolio, with 60% of investment properties in Singapore, 14% in the US, 14% in Australia and 12% in Europe/UK by asset value. Additionally, data centres will now make up 10% of total asset value, up from 4%. As at 31 December 2020, the data centres were 97.9% occupied by 14 customers in a wide range of industries such as financial services, retail, telecommunications and others. Per company, the net property income yield for the first year on a post-transaction costs basis is ~5.7%, derived from the estimated net property income expected in the first year of the proposed acquisition.

- **Fundraising details:** The transaction was financed in part with proceeds from the SGD1.2bn equity fundraising announced on 10 November 2020 and completed on 9 December 2020. As part of the equity fundraising, AREIT issued 264,376,000 new shares at an issue price of SGD3.026 per unit in a private placement on 19 November 2020 and subsequently raised another ~SGD400mn of equity via a preferential offering in December 2020. Of the SGD1.2bn, ~SGD584mn has been used to partly finance earlier acquisitions of properties in San Francisco and Macquarie Park in Sydney.

**Key Considerations**

- **A pioneer in sustainability:** AREIT issued its first time 10Y green bond amounting to SGD100mn in August 2020 and a first time NC5 green perpetual amounting to SGD300mn in September 2020. Furthermore, the REIT has 36 properties with green building certifications as at end-2020 while its LogisTech property became the first industrial building in Singapore to be awarded the Green Mark Platinum Super Low Energy ("SLE") status by the Building and Construction Authority. As at 31 December 2020, AREIT's solar farms (solar panels on rooftops of properties) generated sufficient solar energy to power the common facilities at Neuros & Immunos in Singapore. This is intended to be expanded to the common facilities at two more properties, namely Nexus @one-north and Nucleos by end-2022.

- **Revenue growth driven by US assets:** Gross revenue for 2H2020 was up 12.5% y/y to SGD528.2mn driven by the contribution of 28 new business park properties in the US, two business parks in Singapore and the acquisition of two properties in San Francisco in November 2020. As mentioned in the previous credit update, AREIT completed the acquisition of 254 Wellington Road, a suburban office building in Melbourne, Australia in September 2020. Amidst the pandemic, the government had legislated landlords such as AREIT to pass down a property tax rebate to eligible tenants. AREIT received and recorded a SGD9.2mn of property tax rebate in the top line for 2H2020. All these factors more than offset (1) Lower occupancies at several properties (2) Rent waivers amounting to around SGD17.2mn in 2020 provided by AREIT to tenants and (3) Loss of income from divestments and properties under redevelopments in Singapore. Notably, revenue generated from the US portfolio accounted for SGD62.6mn in 2H2020 versus USD6.5mn in 2H2019, as the first US acquisitions were only completed on 11 December 2019. The full amount of the property tax rebate was expensed via property operating expense (ie: no impact to net property income and EBITDA but boosted revenue line). Taking away the property tax rebate amount from the top line, we find that gross revenue would have increased by 10.6% y/y and down 0.4% h/h in 2H2020. In 2H2020, Singapore was still the largest income contributor, making up 70.4% of portfolio net property income.

- **Low rental reversion expected for 2021:** Overall portfolio occupancy was at 91.7% as at 31 December 2020 (30 September 2020: 91.9%), with q/q improvements seen in the US (92.9% from 92.0%) though occupancy dipped in Singapore and Australia. UK occupancy was flat compared to 30 September 2020. Movement in Singapore was largely due to the non-renewal of a lease at 11 Changi North Way while growth in the US was driven by the newly acquired San Francisco properties. As at 31 December 2020, overall lease expiry looks manageable with only 16.3% of leases coming due in 2021 by gross rental income and 19.9% in 2022. However, for the Singapore portfolio which has a lower occupancy versus the overall portfolio, 20.9% of leases by gross rental income would come due in 2021 and 22.8% would come due in 2022. This then goes higher in 2023 with 24.9% coming due that year. The bulk of the lease expiries are attributable tobusiness and science parks and logistics and distribution centres. Overall rental reversion was 3.8% for leases renewed in 2020 with leases renewed at higher rent prices for most property sub-segments, except for high-specifications industrial and data centres, and logistics and distribution centres in Singapore. Management expects a low single-digit rental reversion number for 2021 in view of market uncertainties.

- **Manageable interest coverage ratio:** EBITDA (based on our calculation which does not include other income and other expenses) was steady at SGD349.5mn while interest expense was down 10.0% h/h from lower average debt balance. Resultant EBITDA/Interest was somewhat higher at 4.6x (1H2020: 4.1x). Assuming AREIT pays SGD9mn p.a in perpetual distributions, taking 50% of this as interest we find EBITDA/(Interest plus 50% of perpetual distribution) at 4.4x.

- **Aggregate leverage increasing:** As at 31 December 2020, AREIT's reported aggregate leverage was 32.8% (30 June 2020: 36.1%) from lower debt balance and an expansion of asset base. For 2H2020, Gross debt-to-EBITDA (inclusive of lease liabilities as debt) was 7.6x versus 7.9x in 1H2020. Taking 50% of perpetual as debt, we estimate that adjusted aggregate leverage was ~33.9%. On 10 September 2020, subordinated perpetual green securities of SGD300mn was priced while an earlier perpetual issued in 2015 was redeemed at first call in October 2020. As at 31 December 2020, cash balance at AREIT was SGD278.0mn. Based on AREIT's disclosure, part of the funding for the European data centres was to come from the SGD1.2bn equity fundraising (raised in 2H2020) while the remaining SGD347.5mn of the acquisition cost was to be funded by debt and/or internal cash resources. However, as cash is fungible, we think part of the earlier equity fundraise was used first to pay down short-term debt in 2H2020. The final price tag on the acquisitions linked to the equity fundraising is smaller than what we originally expected. This means that while we still expect AREIT's reported aggregate leverage to increase from the acquisition, it is unlikely to have risen as much as per our earlier base case and we revise this to ~36-37%.

- **Manageable refinancing risk:** Debt is well staggered, with less than 20% of total debt maturing each year while AREIT maintains access to both debt and equity capital markets. As at 31 December 2020, AREIT faced ~SGD457.9mn of short term debt (including short term lease liabilities). This represents 8.7% of total debt. As at 30 June 2020, short term debt (including short term lease liabilities) was higher at SGD787.9mn. SSGD325mn of debt comes due in 2021, where SGD192mn relates to medium term notes. AREIT had SGD278mn of cash as at 31 December 2020, (albeit security deposits, a liability item of SGD168.1mn). Excluding security deposits, cash balance was SGD109.9mn. Even though cash balance is lower than the short term debt due, AREIT has SGD200mn of committed available credit facilities and ~SGD2.1bn of uncommitted facilities. Unencumbered properties as a percentage of investment properties as at 31 December 2020 were 91.7%, or some SGD12.8bn of unencumbered properties can be used to raise secured debt, if need be.

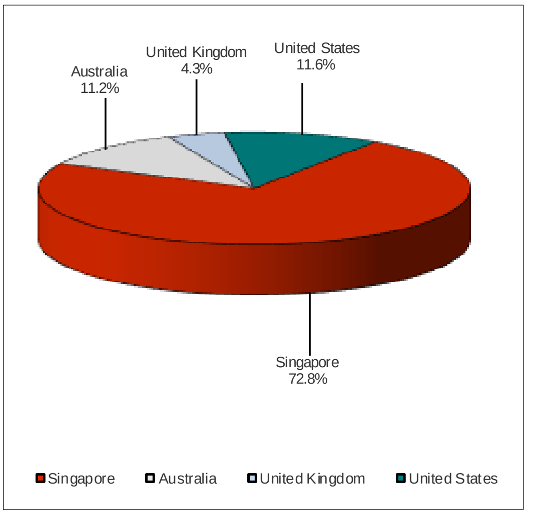
# Ascendas Real Estate Investment Trust

**Table 1: Summary Financials**

| Year End 31st Dec | FYE Mar18 | FYE Mar19 | FY2020 |
|---|---|---|---|
| **Income Statement (SGD'mn)** | | | |
| Revenue | 862.1 | 886.2 | 1,049.5 |
| EBITDA | 571.0 | 587.5 | 699.0 |
| EBIT | 571.0 | 587.5 | 699.0 |
| Gross interest expense | 109.8 | 126.5 | 161.2 |
| Profit Before Tax | 496.9 | 517.5 | 494.2 |
| Net profit | 494.1 | 503.1 | 457.1 |
| **Balance Sheet (SGD'mn)** | | | |
| Cash and bank deposits | 25.0 | 52.3 | 278.0 |
| Total assets | 10,353.8 | 11,413.8 | 15,123.2 |
| Short term debt | 909.9 | 611.9 | 457.9 |
| Gross debt | 3,519.2 | 4,097.8 | 5,291.9 |
| Net debt | 3,494.2 | 4,045.5 | 5,013.9 |
| Shareholders' equity | 6,498.7 | 6,946.0 | 9,190.6 |
| **Cash Flow (SGD'mn)** | | | |
| CFO | 538.9 | 612.4 | 729.5 |
| Capex | 132.7 | 176.1 | 245.5 |
| Acquisitions | 226.6 | 914.2 | 875.1 |
| Disposals | 60.8 | 37.6 | 123.7 |
| Dividends | 308.8 | 477.3 | 613.3 |
| Interest paid | 118.4 | 128.7 | 140.9 |
| Free Cash Flow (FCF) | 406.2 | 436.4 | 483.9 |
| **Key Ratios** | | | |
| EBITDA margin (%) | 66.23 | 66.30 | 66.60 |
| Net margin (%) | 57.31 | 56.77 | 43.55 |
| Gross debt to EBITDA (x) | 6.16 | 6.97 | 7.57 |
| Net debt to EBITDA (x) | 6.12 | 6.89 | 7.17 |
| Gross Debt to Equity (x) | 0.54 | 0.59 | 0.58 |
| Net Debt to Equity (x) | 0.54 | 0.58 | 0.55 |
| Gross debt/total asset (x) | 0.34 | 0.36 | 0.35 |
| Net debt/total asset (x) | 0.34 | 0.35 | 0.33 |
| Cash/current borrowings (x) | 0.03 | 0.09 | 0.61 |
| EBITDA/Total Interest (x) | 5.20 | 4.64 | 4.34 |

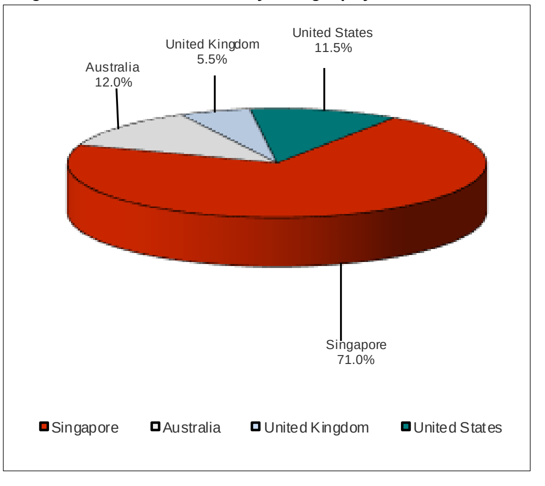
*Source: Company, OCBC estimates*

**Figure 1: Revenue breakdown by Geography - FY2020**



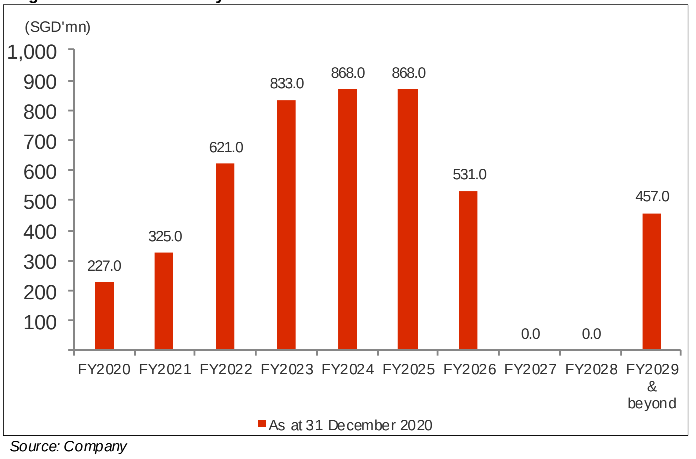

*Source: Company*

**Figure 2: NPI breakdown by Geography - FY2020**



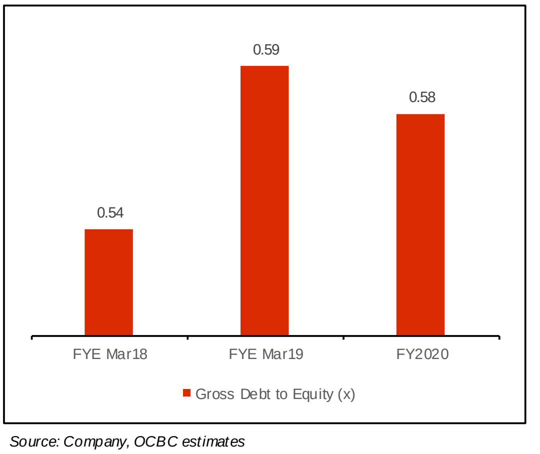

*Source: Company*

**Figure 3: Debt Maturity Profile**




*Source: Company*

**Figure 4: Gross Debt to Equity (x)**




*Source: Company, OCBC estimates*

## 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 |

**Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.**

## Explanation of Bond Recommendation

**Overweight ("OW")** – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral ("N")** – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight ("UW")** – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

## 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.

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