

COMPANY RESULTS

Ascendas REIT (AREIT SP)

1H22: Higher Rental Reversion, Occupancy And Utilities Expenses

AREIT achieved positive rental reversion of 13.2% in 2Q22, supported by growth momentum across all geographic regions. Portfolio occupancy improved 1.4ppt qoq to 94.0%, driven by Singapore and UK/Europe. Management plans to scale up in new economy assets, such as logistics properties. We have cut our DPU forecast by 7% due to higher utilities expenses. AREIT provides resilient 2022 distribution yield of 5.4%. Maintain BUY with a target price of S\$3.45.

1H22 RESULTS

Year to 31 Dec (\$m)	1H22	yoy % chg	Remarks
Gross Revenue	666.5	+13.7	Growth driven by acquisitions in Singapore, Australia, Europe,
Net Property Income (NPI)	476.9	+7.0	Europe, UK and the US.
Distributable Income	330.7	+6.3	
DPU (S cents)	7.873	+2.8	Number of units increased 3.5% yoy.

Source: AREIT, UOB Kay Hian

RESULTS

- Ascendas REIT (AREIT) reported DPU of 7.873 S cents for 1H22 (+2.8% yoy), which is below our expectations. Gross revenue increased 13.7% yoy due to acquisitions in Singapore, Australia, Europe, UK and the US.
- Positive rental reversion driven by Singapore, UK and US.** AREIT achieved positive rental reversion of 9.4% in 1H22 (1Q22: 4.6% and 2Q22: 13.2%). In Singapore, business space and life sciences generated strong reversions of +19.9% in 2Q22, driven by biomedical and R&D activities. Logistics and industrial segments also saw healthy reversions of +7.5% and +4.4% respectively. Business parks in the US registered strong reversion of +15.3% in 2Q22, driven by Portland. Data centres in UK/Europe provided positive rental reversion of +11.7%. Management guided positive mid-single-digit rental reversion for 2022 (previous: low-single-digit).
- Occupancy on upward trend and above 90% for all geographic regions.** Portfolio occupancy improved by 1.4ppt qoq to 94.0% in 2Q22. In Singapore, occupancy improved by 1.9ppt qoq to 91.9% due to higher occupancy at UBIX (improved 33.5ppt qoq to 51.5%) and a new tenant at 1 Changi South Lane. Occupancy in the US improved 1.3ppt qoq to 95.3% in 2Q22 with the seven newly-acquired logistics properties in Chicago fully occupied. In UK/Europe, occupancy improved 1.0ppt qoq to 97.7% after securing a new tenant for unit 13 Wellesbourne Distribution Park in the UK.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,049	1,227	1,269	1,293	1,315
EBITDA	699	820	826	843	858
Operating profit	699	820	826	843	858
Net profit (rep./act.)	452	933	619	614	626
Net profit (adj.)	512	578	619	614	626
EPU (S\$ cent)	14.0	13.9	14.8	14.6	14.9
DPU (S\$ cent)	14.7	15.4	15.9	15.8	15.9
PE (x)	21.2	21.3	20.1	20.3	19.9
P/B (x)	1.3	1.2	1.3	1.3	1.3
DPU Yld (%)	5.0	5.2	5.4	5.3	5.4
Net margin (%)	43.0	76.1	48.8	47.5	47.6
Net debt/(cash) to equity (%)	47.9	55.6	57.4	58.7	60.1
Interest cover (x)	4.4	5.2	4.6	4.1	4.2
ROE (%)	5.2	9.6	6.0	6.0	6.2
Consensus DPU (S\$ cent)	n.a.	n.a.	16.0	16.4	17.0
UOBKH/Consensus (x)	-	-	1.00	0.97	0.94

Source: Ascendas REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.96
Target Price	S\$3.45
Upside	+16.6%
(Previous TP)	S\$3.69

COMPANY DESCRIPTION

AREIT invests in business & science park, life sciences, suburban office, high-specification industrial, data centres, light industrial and logistics & distribution properties. Its portfolio stands at S\$16.6b as of Jun 22, comprising 228 properties located across Singapore, Australia, Europe, UK and the US.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	AREIT SP
Shares issued (m):	4,200.9
Market cap (S\$m):	12,434.8
Market cap (US\$m):	9,012.0
3-mth avg daily t'over (US\$m):	24.6

Price Performance (%)

52-week high/low S\$3.16/S\$2.68

1mth	3mth	6mth	1yr	YTD
5.0	3.5	7.2	(5.1)	0.3

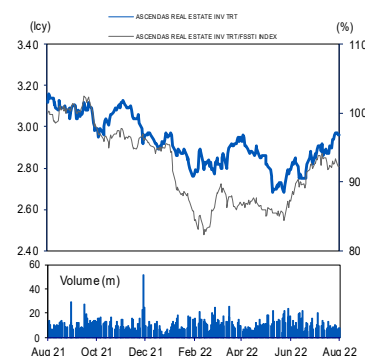
Major Shareholders

	%
Temasek Hldgs	20.3

FY22 NAV/Share (S\$) 2.36

FY22 Net Debt/Share (S\$) 1.40

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **NPI margin narrowed 3.5ppt yoy to 71.6% in 1H22.** Property operating expenses increased 43.1% yoy in 1H22 due to higher utilities expenses. Utilities (landlord's portion) accounted for 8% of operating expenses in 2021. AREIT renewed its supply contract for electricity in Singapore in Oct 21 and electricity tariffs are locked in till Dec 22. Management expects utilities expenses to increase 50-70% in 2022.
- **Acquiring more logistics properties.** In 1H22, AREIT completed the acquisitions of nine logistics properties in Australia and the US as well as one redevelopment project in Singapore with a total investment of S\$261.6m. It acquired two newly-completed logistics properties in Sydney and Brisbane in Feb 22. It completed the acquisition of seven last mile logistics properties in Chicago in Jun 22. The redevelopment of 25 and 27 Ubi Road 4 was completed in Jan 22 at a cost of S\$38.2m. The five-storey industrial building was renamed UBIX and has occupancy of 51.5%.
- **Prudent capital management.** AREIT's aggregate leverage increased 0.8ppt qoq to 36.7% as of Jun 22. It has available debt headroom of S\$4.6b before hitting MAS' limit on aggregate leverage of 50%. All-in weighted average cost of debt was stable at 2.1% and interest coverage ratio is healthy at 5.7x. Average debt maturity was extended by 0.4 years to 3.9 years. 80% of its borrowings are hedged to fixed rates.

STOCK IMPACT

- **Plotting steady growth.** AREIT plans to expand in new economy assets. Many companies are building up their logistics capabilities to build resilience in their supply chains. The logistics industry is facing a structural change from just-in-time to just-in-case in supply chain management. AREIT is focusing on last mile infill locations near residential population centres where supply is limited. It serves a diverse range of third-party logistics players and distributors. Demand remains strong and occupancy for AREIT's logistics space is close to 100%. AREIT has achieved positive rental reversion for logistics space at +7.5% in Singapore and +15.2% for Australia in 2Q22. Digitalisation of the economy will also lead to greater demand for business space and data centres.
- **Investing in last mile logistics space in Kansas City.** AREIT has completed the acquisition of 11 logistics properties located in Kansas City for S\$207.8m (US\$156.0m) in Nov 21. This is AREIT's first foray into the US logistics market. The 11 logistics properties are located on freehold land and infill locations across Kansas City's established sub-markets of South Johnson County, North Johnson County, Eastern Jackson County and Northland. It has 200,000sqm of last mile logistics space offering convenient access to the mid-western population centres. The portfolio provides NPI yield of 5.1% for the first year.
- **Investing in last mile logistics space in Chicago.** AREIT has completed the acquisition of seven logistics properties located at infill sub-markets across Chicago for S\$133.2m (US\$99m) in Jun 22. The portfolio has long WALE of five years and is 100% occupied by 12 tenants. Chicago is an important rail hub and interchange for freight traffic between major railways. The portfolio provides NPI yield of 5.3% for the first year.

EARNINGS REVISION/RISK

- We cut our DPU forecast by 6.6% for 2022 and 6.7% for 2023 due to higher cost of utilities.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$3.45 is based on DDM (cost of equity: 7.0%, terminal growth: 2.6%).

SHARE PRICE CATALYST

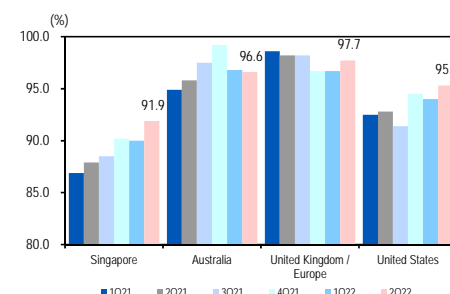
- Resiliency and growth from Business Parks, Life Sciences, Logistics and Data Centre segments.
- Contributions from development projects and AELs.

KEY OPERATING METRICS - AREIT

Year to 31 Dec	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	7.66	n.a.	7.60	n.a.	7.87	2.8%	3.6%
Occupancy	90.6%	91.3%	91.7%	93.2%	92.6%	94.0%	2.7ppt	1.4ppt
Aggregate Leverage	38.0%	37.6%	37.4%	35.9%	36.8%	36.7%	-0.9ppt	-0.1ppt
Average Cost of Debt	2.2%	2.4%	2.4%	2.2%	2.10%	2.10%	-0.3ppt	0ppt
% Borrowing in Fixed Rates	69.4%	75.2%	78.4%	79.4%	79.1%	80.0%	4.8ppt	0.9ppt
WALE by NLA (years)	4.1	4.0	3.8	3.8	3.7	3.7	-0.3yrs	0yrs
Weighted Debt Maturity (years)	3.3	3.7	3.5	3.5	3.5	3.9	0.2yrs	0.4yrs
Rental Reversion	3.0%	8.9%	3.7%	4.5%	4.6%	13.2%	4.3ppt	8.6ppt

Source: AREIT, UOB Kay Hian * hoh % chg for DPU.

PORTFOLIO OCCUPANCY



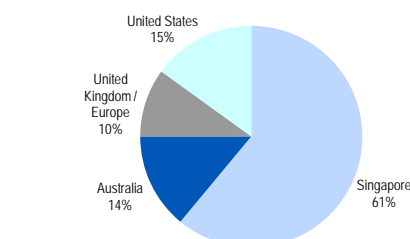
Source: AREIT

POSITIVE RENTAL REVERSIONS

% Change in Renewal Rates	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
SINGAPORE	2.9%	3.4%	3.6%	2.3%	3.9%	13.0%
- Business & Science Parks	2.8%	3.7%	3.7%	2.2%	3.6%	19.9%
- High Specification Industrial & Data Centres	-0.9%	4.8%	5.1%	0.3%	4.4%	4.4%
- Light Industrial & Flatted Factories	0.8%	1.3%	1.1%	3.5%	n.a.	n.a.
- Logistics & Distribution Centres	5.6%	4.9%	4.6%	3.1%	1.5%	7.5%
- Integrated Developments, Amenities & Retail	-2.7%	-3.1%	1.4%	1.0%	n.a.	n.a.
AUSTRALIA	n.a.	n.a.	n.a.	n.a.	16.5%	15.2%
- Suburban Office	n.a.	n.a.	n.a.	n.a.	16.5%	n.a.
- Logistics & Distribution Centres	n.a.	n.a.	n.a.	n.a.	n.a.	15.2%
UNITED STATES	6.2%	26.3%	15.0%	0.9%	14.0%	15.3%
- Business Parks & Office	6.2%	26.3%	15.0%	18.9%	12.2%	15.3%
- Logistics & Distribution Centres	n.a.	n.a.	n.a.	0.0%	26.4%	n.a.
UNITED KINGDOM / EUROPE	n.a.	n.a.	n.a.	6.2%	n.a.	11.7%
- Data Centres	n.a.	n.a.	n.a.	6.2%	n.a.	11.7%
- Logistics & Distribution Centres	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Portfolio	3.0%	8.9%	3.7%	2.9%	4.6%	13.2%

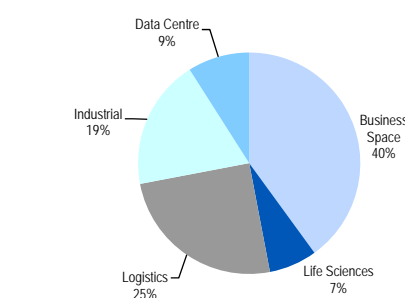
Source: AREIT

AUM BY GEOGRAPHICAL REGION



Source: AREIT

AUM BY ASSET CLASS



Source: AREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	1,226.5	1,268.6	1,293.1	1,314.6
EBITDA	819.9	825.6	842.8	858.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	819.9	825.6	842.8	858.1
Associate contributions	3.3	0.5	0.5	0.5
Net interest income/(expense)	(158.9)	(180.8)	(203.9)	(206.0)
Pre-tax profit	1,019.5	645.3	639.3	652.5
Tax	(86.5)	(25.8)	(25.6)	(26.1)
Minorities	0.0	0.0	0.0	0.0
Net profit	933.0	619.5	613.8	626.4
Net profit (adj.)	577.8	619.5	613.8	626.4

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	16,539.8	16,514.7	16,574.7	16,634.7
Other LT assets	735.1	683.5	631.9	580.4
Cash/ST investment	368.5	315.8	332.2	325.3
Other current assets	87.1	57.6	58.6	59.5
Total assets	17,730.5	17,571.7	17,597.5	17,599.9
ST debt	1,250.8	1,250.8	1,250.8	1,250.8
Other current liabilities	520.6	351.9	357.6	362.6
LT debt	4,833.5	4,935.6	5,055.6	5,155.6
Other LT liabilities	848.4	805.8	758.0	709.9
Shareholders' equity	10,277.2	10,227.6	10,175.5	10,120.9
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	17,730.5	17,571.7	17,597.5	17,599.9

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	726.8	891.8	801.9	815.9
Pre-tax profit	664.3	645.3	639.3	652.5
Working capital changes	86.3	(130.3)	6.8	6.0
Non-cash items	15.9	16.5	16.6	16.6
Other operating cashflows	(39.7)	360.4	139.2	140.8
Investing	(1,914.7)	(221.0)	(60.0)	(60.0)
Capex (growth)	(2,032.3)	(161.0)	0.0	0.0
Capex (maintenance)	(114.4)	(60.0)	(60.0)	(60.0)
Proceeds from sale of assets	262.4	0.0	0.0	0.0
Others	(30.3)	0.0	0.0	0.0
Financing	1,277.4	(723.5)	(725.6)	(762.8)
Distribution to unitholders	(378.5)	(669.1)	(665.9)	(681.0)
Issue of shares	420.0	0.0	0.0	0.0
Proceeds from borrowings	1,361.2	102.1	120.0	100.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(125.4)	(156.5)	(179.7)	(181.8)
Net cash inflow (outflow)	89.5	(52.7)	16.4	(6.9)
Beginning cash & cash equivalent	278.0	368.5	315.8	332.2
Changes due to forex impact	1.1	0.0	0.0	0.0
Ending cash & cash equivalent	368.5	315.8	332.2	325.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.8	65.1	65.2	65.3
Pre-tax margin	83.1	50.9	49.4	49.6
Net margin	76.1	48.8	47.5	47.6
ROA	5.7	3.5	3.5	3.6
ROE	9.6	6.0	6.0	6.2
Growth				
Turnover	16.9	3.4	1.9	1.7
EBITDA	17.3	0.7	2.1	1.8
Pre-tax profit	108.6	(36.7)	(0.9)	2.1
Net profit	106.6	(33.6)	(0.9)	2.1
Net profit (adj.)	12.9	7.2	(0.9)	2.1
EPU	(0.3)	6.0	(1.1)	1.9
Leverage				
Debt to total capital	37.2	37.7	38.3	38.8
Debt to equity	59.2	60.5	62.0	63.3
Net debt/(cash) to equity	55.6	57.4	58.7	60.1
Interest cover (x)	5.2	4.6	4.1	4.2

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