

Credit Opinion: Ascendas Real Estate Investment Trust

Global Credit Research - 28 May 2012

Singapore

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	A3
Senior Unsecured	Baa1

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Key Indicators

Ascendas Real Estate Investment Trust

	2007	2008	2009	2010	[1]2011	5-Yr.Avg
Total Revenue (S\$ million)	283.0	322.3	396.5	413.7	447.6	[2]12.1%
EBITDA (S\$ million)	188.2	216.6	261.3	294.9	310.2	[2]13.3%
EBITDA Margin	66.5%	67.2%	65.9%	71.3%	69.3%	68.0%
Total Debt / EBITDA (x)	6.3	7.2	6.1	5.1	6.1	6.2
EBITDA / Interest (x)	5.4	5.1	4.5	4.9	4.4	4.8
Total Assets (S\$ million)	3,307	4,205	4,548	4,854	5,420	[2]13.1%
Total Debt % Total Assets	35.8%	37.1%	34.9%	31.2%	35.0%	34.8%
Secured Debt % Total Assets	19.7%	24.8%	23.0%	14.3%	12.9%	19.0%

[1] Year ended March 31 [2] Compound Annual Growth Rate

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

- Established market position with a quality and diversified portfolio
- Good operating track record and resilience in earnings
- Pro-active capital management with good access to debt and equity markets
- Solid credit metrics and enhanced financial flexibility

Corporate Profile

Listed on the SGX in November 2002, Ascendas Real Estate Investment Trust (A-REIT) is a Singapore-based business and industrial REIT, with a diversified portfolio of 101 properties in Singapore and one business park

property in China. Total asset value is SGD6.6 billion as of March 31, 2012.

A-REIT's controlling unitholder and sponsor is Ascendas Pte Ltd (Ascendas), which owns 18.10% of the trust. Ascendas is a wholly owned subsidiary of Jurong Town Corporation (JTC), a Singaporean statutory body that develops and manages industrial estates in Singapore and provides facilities to enhance the operations of industries.

The trust is managed by Ascendas Funds Management (S) Limited while their properties are managed by Ascendas Services Pte Ltd, both of which are wholly owned subsidiaries of Ascendas.

SUMMARY RATING RATIONALE

A-REIT's ratings are underpinned by the trust's established market position and diversified portfolio of high-quality industrial assets that provide stable income streams, backed by a diversified tenant/trade mix, healthy occupancy levels and a good balance of lease structures. A-REIT has a good operating track record with steady growth since listing and resilient earnings in a down market.

The rating also recognizes the trust's ability to access the capital markets. Since beginning of 2012, A-REIT had raised approximately SGD354 million from notes issuance to re-finance debt maturities and SGD298.5 million from private placement of new units to fund acquisition, asset enhancement initiatives as well as development projects. Pro-active capital management has reduced refinancing risk for the current year and improved its debt leverage and financial flexibility.

However, A-REIT's ratings are constrained by some event risk which could see significant acquisitions in pursuit of portfolio growth, particularly where they result in weaker credit metrics. Ratings are also constrained by the inherent risk for all S-REITs, such as a weak liquidity profile as a result of high dividend payout ratios and minimal cash balances.

DETAILED RATING CONSIDERATIONS

ESTABLISHED MARKET POSITION WITH A QUALITY AND DIVERSIFIED PORTFOLIO

A-REIT has established itself as the largest business space and industrial REIT in Singapore. In October 2011, the trust completed its first overseas acquisition - a business park in Beijing, China. Its portfolio grew from 93 properties in March 2011, to 102 properties as of March 31, 2012; with assets under management of SGD6.6 billion. The properties are well maintained and in locations with good access to transportation.

A-REIT's portfolio lacks geographical diversification but properties are well spread across five sub-sectors: Business & Science Parks, High-Tech Industrial, Light Industrial, Logistics & Distribution Centres, and Warehouse Retail Facilities. Based on FY2011/12 net property income, business & science parks constitute 33.6% of the portfolio; high-tech industrial, 22.4%; light industrial, 17.1%; logistics & distribution centers, 23.8%; and warehouse retail facilities, 3.1% with no concentration of income stream from any one sector. There is also minimal property concentration as no single building accounts for more than 4.5% of monthly gross revenue.

Diversity of portfolio sub-sectors has allowed the trust to attract tenants from a wide array of trades which are exposed to different segments of the economy and have different growth drivers, thereby adding diversification value to the portfolio. The tenant base comprises some 1,100 international and local companies from over 20 industries. For the year ended March 31, 2012, the top ten tenants accounted for only 25.5% of A-REIT's monthly gross revenue.

A-REIT's expansion strategy is to follow its customers and serve their real estate needs in both Singapore and throughout Asia, as well as to take advantage of growth in major tier-one cities of Shanghai and Beijing within China. Although the trust continues to seek for opportunities beyond Singapore, its portfolio will largely remain Singapore-based in the foreseeable future.

GOOD OPERATING TRACK RECORD AND STABLE EARNINGS

A-REIT's earnings have grown consistently since its listing, driven mainly by (1) rapid portfolio growth through yield-accretive investments, benefiting from access to good quality assets via its sponsor-backed pipeline; and (2) stable organic growth supported by a good mix of long- and short-term leases as well as healthy portfolio occupancy rates, which stood at 96.4% as of March 31, 2012.

Through its investment strategy of selective acquisitions, development projects and asset enhancement initiatives,

A-REIT has succeeded in expanding its portfolio from SGD545 million in November 2002 to SGD6.6 billion as at March 31, 2012. Recurring adjusted EBITDA margin has been strong, over 65%, reflecting sound management practices.

In FY2011/12, A-REIT completed acquisitions of six income-producing properties in Singapore and a business park property, Ascendas Z-Link in Beijing, China. The Singapore acquisitions further strengthen A-REIT's market leader position in the Business & Science Park segment while the China acquisition marked its first step towards geographical diversification. The trust has also forayed into Shanghai, China with a forward purchase of a business park property under development for RMB587.9 million (SGD117.6 million) but the transaction will only close in first half of 2013, upon completion of the property.

On development projects, A-REIT completed a built-to-suit logistics facility for FedEx Singapore. FedEx Singapore has committed to 100% of the net lettable area for ten years with the option to renew for another two terms of five years each. Other ongoing development projects are a built-to-suit facility for Unilever Asia Private Limited and a business park at Fusionopolis; development cost is estimated to be SGD32.3 million and SGD178 million respectively while expected completion date will be in the first and third quarter of 2013 respectively.

There are also asset enhancement initiatives at a cost of SGD152.8 million on five properties to maximize plot ratio, reposition for higher value usage and enhance marketability. Two of which have been completed while the rest are slated for completion between second half of 2012 and in 2013.

Historically, A-REIT has displayed prudence and discipline in its growth strategy as leverage ratios were kept at healthy levels.

A-REIT's portfolio has a good mix of long- and short-term leases to provide stability as well as potential for rental income growth. By value, 38% of the portfolio comprises long-term leases, the other 62%, short-term leases. The lease expiry profile of A-REIT's portfolio is evenly staggered, with a weighted-average lease term of four years as of March 31, 2012.

The long-term leases are backed by seven to twelve months' security deposits with a portfolio weighted average of six months. These are mainly single-tenanted buildings from sale-and-leaseback arrangements or built-to-suit transactions, where 32.2% incorporate rent rises pegged to consumer price index with a fixed-rate floor. The remaining long-term leases incorporate periodic rental escalation of varying percentages, which makes for stable earnings growth. On the other hand, the short-term leases, typically three-year rolling leases, are for multi-tenanted buildings where rents are adjusted to the market rate upon renewal.

A-REIT achieved positive rental reversions for its Business & Science Park, High-Tech Industrial, Light Industrial and Logistics & Distribution Centre properties for the year ended 31 March, 2012, as prevailing market rates were higher than the rents on leases that were being renewed. About 13.8% (by property income) of A-REIT's leases will be up for renewal in FY2012/13 where positive reversions are expected as current market rate is between 16% and 32% higher than existing rents.

PRO-ACTIVE CAPITAL MANAGEMENT WITH GOOD ACCESS TO DEBT AND EQUITY MARKETS

A-REIT has a good franchise and a well-known brand name in association with its sponsor, Ascendas which facilitates good access to debt and equity markets. This supported the trust's pro-active approach towards capital management where funding is often in place well ahead of debt maturities.

Since beginning of 2012, the trust issued SGD200 million of ten-year notes due 2022 and JPY10 billion of twelve-year notes due 2024 which was immediately swapped into SGD153.7 million; both issuances were issued under its SGD1,000,000,000 Multicurrency Medium Term Note Programme. It further raised SGD298.5 million from a private placement of 150 million new units in early May 2012.

The proceeds from both notes issuance were used towards refinancing of existing borrowings while proceeds from private placement will be largely used to fund expansion plans. A-REIT's weighted average term of debt was lengthened to 4.2 years from 3.2 years as of March 31, 2011.

SOLID CREDIT METRICS AND ENHANCED FINANCIAL FLEXIBILITY

For the financial year ended March 31, 2012, A-REIT continued to maintain a healthy debt maturity profile with diversified sources of funding. The trust's recent debt and equity issuance have reduced its reliance on uncommitted revolving credit facilities to fund long-term asset acquisitions. Moody's views this positively as it

strengthens A-REIT's balance sheet strength.

Assuming proceeds from the private placement have been deployed as planned, we estimate A-REIT's total borrowings/value of the deposited property will improve to 34.6% from 36.6% as of March 31, 2012, which enhance the trust's financial flexibility. We expect A-REIT's Debt/Total assets to remain in the range of 34-36% over the next 2-3 years.

A-REIT's financial flexibility also improved with the increased use of unsecured debt to fund the trust's operations, with 33% (SGD695 million) of its SGD2,104 million in debt remaining secured as of May 2012. Unencumbered assets are currently worth around SGD3.6 billion, or 58.6% of total investment properties. As of March 31, 2011, secured debt amounted to SGD701 million, or 37% of its total debt of SGD1,904 million.

Liquidity Profile

Despite the high dividend payout ratios required of the S-REITs, Moody's believes that A-REIT's balance sheet strength, its ability to access capital, and its association with its sponsor, Ascendas, will support the trust's efforts to raise any funding necessary for its expansion and debt payments.

There is no material refinancing needs over the next 12 months, other than term loan repayments of SGD19 million and SGD3 million due in July and December 2012 respectively. A-REIT has approximately SGD96 million of undrawn committed revolving credit facilities as of May 2012 and it is more than sufficient to cover the term loan repayments.

The next major debt maturity for A-REIT is due only in July 2013 being SGD125 million of SGD medium term notes and SGD132 million of term loan facility.

Structural Considerations

The A3 corporate family rating reflects Moody's opinion of A-REIT's ability to honor its financial obligations as if it had a single class of debt and were a consolidated legal entity. A-REIT's senior unsecured debt is notched down to Baa1 from the A3 corporate family rating to reflect legal subordination risk, as its secured debt comprised 30% of total debt and 11% of total assets as of March 31, 2012. Whilst these levels suggest that A-REIT's debt ratings may no longer be notched down from the trust's corporate family rating, Moody's has maintained the notching at present in anticipation that issuance of secured debt will remain a funding option going forward. We expect the level of subordination to remain about the same for the next 12-18 months.

Other Considerations

According to Moody's global rating methodology for REITs and other commercial property firms (please see Moody's "Rating Methodology for REITs and Other Commercial Property Firms," published in July 2010), A-REIT's credit profile maps broadly to the Baa range, due to its solid earning metrics, leading market position in Singapore's industrial space, diversified tenant base, strong credit metrics, strong sponsor support, and limited development risk.

Rating Outlook

The stable outlook reflects Moody's expectation that A-REIT will maintain its prudent operating and financial policy as it expands its portfolio, and thus maintain its current credit profile.

What Could Change the Rating - Up

Further upward pressure is limited over the near term given the company's current scale and geographic concentration.

What Could Change the Rating - Down

A-REIT's ratings could be pressured downward if (1) occupancy rates fall, past-due rents increase, or profitability declines due to a high level of supply in the market or adverse changes in market conditions; or (2) it makes any significant debt-funded acquisitions - such that EBITDA/interest coverage falls below 3.5x-4x, debt/EBITDA rises above 6x-6.5x, or debt/total assets rises above 40%.

Rating Factors

Ascendas Real Estate Investment Trust

Real Estate Investment Trust	Aaa-Aa	A	Baa	Ba
Factor 1: Liquidity & Funding				
a) Liquidity Coverage				X
b) Upcoming Debt Maturities			X	
c) FFO Payout Ratio				X
d) Unencumbered Assets			X	
Factor 2: Leverage & Capital Structure				
a) Debt + Preferred / Gross Assets			X	
b) Net Debt / EBITDA				X
c) Secured Debt / Gross Assets			X	
d) Access to Capital			X	
Factor 3: Market Position & Asset Quality				
a) Franchise / Brand Name		X		
b) Gross Assets			X	
c) Portfolio Diversity			X	
d) Development % Gross Assets	X			
e) Asset Quality			X	
Factor 4: Cash Flow & Earnings				
a) EBITDA / Revenues		X		
b) EBITDA Margin Volatility			X	
c) Fixed Charge Coverage	X			
d) JV / Fund Business % Revenues	X			



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