

ISSUER COMMENT

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Ascendas Real Estate Investment Trust

A-REIT's SGD452 million equity raise is credit positive

On 7 September 2018, Singapore-listed [Ascendas Real Estate Investment Trust](#) (A-REIT, A3 positive) announced that it had raised SGD452.1 million of equity via a private placement of new units. The transaction is credit positive because the equity proceeds will be used to pre-fund planned capital investments, thereby alleviating the need to rely on fresh borrowings. A-REIT also indicated that it may use part of the proceeds to reduce debt.

The new units constitute around 5.7% of the pre-transaction issued share capital in the trust. The units were placed at SGD2.54 per unit, a 3.5% discount to A-REIT's adjusted volume weighted average unit price on 6 September 2018.

We expect A-REIT's pro-forma leverage, as measured by adjusted net debt/ EBITDA, will improve and stabilize at 6.1x-6.2x over the next 12-18 months compared to our original projections of 6.4x-6.5x. Its adjusted debt/ deposited assets will also improve to around 36.5% in the same period from our earlier forecast of 39%. These projections incorporate our assumptions that the trust will apply net equity proceeds (post fees and expenses) of SGD448 million towards acquisitions and other capital investments. Our leverage expectations could improve if the trust opts to utilize partial proceeds towards debt repayment. These credit metrics continue to support A-REIT's A3 rating and positive outlook.

The trust plans to use SGD250 million to partly fund the acquisition of a portfolio of UK logistics assets. The proposed transaction, which is still under due diligence process, follows A-REIT's £205.01 million (SGD369.08 million) maiden UK acquisition of logistics assets in August 2018. The growth in A-REIT's UK footprint further improves its geographical diversification beyond Singapore and Australia. Assuming this second acquisition goes ahead, A-REIT's UK and Australia properties will contribute around 20% of its portfolio value, while Singapore will account for 80%.

Exhibit 1

A-REIT's utilization plan for the SGD452.1 million of equity proceeds

	SGD millions
Gross equity proceeds	452.1
Proposed UK logistics portfolio	250.0
Proposed built-to-suit facility in Singapore	109.0
Debt repayment or future acquisitions	88.9
Fees and expenses	4.2

Source: A-REIT data

The trust also plans to utilize SGD109 million of the net proceeds to partly fund a built-to-suit facility in Singapore. Our assessment of this proposed transaction would depend on the tenant quality, lease period and rent structure. While this exposes the trust to development

risk, we believe it will be manageable given its track record in developing such projects and the execution expertise of its sponsor Ascendas-Singbridge Pte Ltd.

A-REIT's equity raising exercise to pre-fund acquisitions and investments highlights its conservative approach towards financial management, particularly in light of the rising interest rate environment. We expect the trust will continue to exercise financial prudence as it pursues portfolio growth going forward.

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