



## Rating Action: Moody's affirms CapitaLand Ascendas REIT's A3 ratings; outlook stable

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Singapore, November 14, 2022 -- Moody's Investors Service has affirmed CapitaLand Ascendas REIT's (CLAR) A3 issuer and senior unsecured ratings, the provisional (P)A3 senior unsecured ratings on its SGD5 billion multicurrency medium-term note (MTN) program and SGD7 billion euro MTN program, and the Baa2 rating on its subordinated perpetual securities.

The outlook remains stable.

"The rating affirmation reflects CLAR's established market position in Singapore and diversified portfolio of good-quality industrial assets, which support stable income generation for the trust amid an increasingly challenging macroeconomic environment," says Yu Sheng Tay, a Moody's Analyst.

"The stable outlook reflects our view that CLAR will remain financially prudent in the execution of its growth strategy, such that its credit metrics will stay within the parameters of its A3 ratings," adds Tay.

### RATINGS RATIONALE

Moody's expects CLAR to generate EBITDA of around SGD860 million and SGD920 million in 2022 and 2023, respectively, compared with SGD836 million in 2021. The increase is driven by full-year earnings contribution from new acquisitions as well as a modest margin improvement in 2023, as CLAR raised service charges for its Singapore leases to offset rising utility costs in October 2022.

Despite the earnings increase, Moody's expects CLAR's interest coverage to weaken to around 4.5x in 2022-23 from 5.1x in 2021 amid a rising interest rate environment and higher debt incurrence to fund its investments. Nonetheless, interest coverage continues to have sufficient headroom against the downgrade threshold of 3.5x.

In the first nine months of 2022, CLAR announced SGD500 million of acquisitions and a convert-to-suit development project. Consequently, Moody's expects the trust's leverage, as measured by net debt/EBITDA, to increase to 8.3x in 2022 before moderating to less than 8.0x in 2023-24 as earnings increase. Its leverage stood at 7.7x at the end of 2021.

CLAR has limited headroom to accommodate further debt-funded investments under its leverage downgrade threshold of 8.0x-8.5x. However, Moody's believes that the trust has avenues to reduce its leverage through future divestment of assets and equity issuances.

CLAR's appetite for growth has increased since 2015 when it expanded its investment mandate to explore opportunities beyond Singapore. Nonetheless, the trust has exercised financial prudence in executing its growth plans, having raised around SGD3.5 billion in equity between

2018 and 2021 to fund its acquisitions and investments.

The trust's credit quality continues to be supported by its diversified portfolio of good-quality industrial assets across Singapore, Australia, Europe and the US. In addition, CLAR has an established market position in Singapore as one of the largest industrial landlords in the country.

CLAR's liquidity is inadequate because of its usage of short-term revolving credit facilities. Nonetheless, the trust's track record of funding access and established banking relationships will likely mitigate this refinancing risk. As of 30 September 2022, the trust had cash and cash equivalents of SGD250 million, compared with SGD585 million of utilized revolving credit facilities and SGD750 million of medium-term notes and term loans maturing over the next 15 months.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade CLAR's rating if the trust continues to improve its geographic diversification while strengthening its credit metrics, such that its Moody's-adjusted debt/total deposited assets falls below 35% and its Moody's-adjusted net debt/EBITDA remains below 6.0x on a sustained basis.

Conversely, Moody's could downgrade CLAR's rating if the operating environment deteriorates, leading to higher vacancy levels and a decline in operating cash flow or a fall in asset valuations; or the trust's credit metrics weaken, such that its Moody's-adjusted net debt/EBITDA rises above 8.0x-8.5x or its Moody's-adjusted EBITDA/interest coverage falls below 3.5x.

In addition, a significant change in CLAR's business risk profile resulting from expansion into higher-risk jurisdictions could strain its rating.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2022 and available at <https://ratings.moodys.com/api/rmc-documents/393395>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

CapitaLand Ascendas REIT, formerly known as Ascendas Real Estate Investment Trust, listed on the Singapore Stock Exchange in November 2002. As of 30 September 2022, the trust had a diversified portfolio of 94 properties in Singapore, 36 in Australia, 49 in Europe, and 47 in the US, with a total appraised value of SGD16.5 billion.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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