

CREDIT OPINION

15 November 2022

Update



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RATINGS

CapitaLand Ascendas REIT

Domicile	Singapore
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CapitaLand Ascendas REIT

Update following rating affirmation, outlook remains stable

Summary

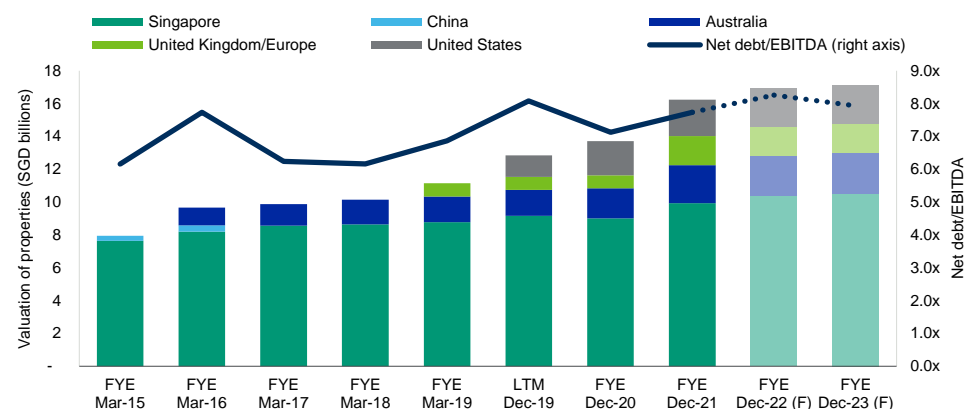
CapitaLand Ascendas REIT's (CLAR) A3 ratings reflects its stable operating track record and income generation; diversified portfolio of good-quality industrial assets across Singapore, Australia, Europe, the UK and the US; established market position as one of the largest industrial landlords in Singapore by asset size; and disciplined financial policies.

Although CLAR has an acquisitive growth strategy, the trust has funded its expansion with a mix of divestments, debt and equity. At the same time, the positioning of its portfolio enables the trust to capture growth in the technology, logistics and life sciences industries.

CLAR's ratings is also constrained by its use of short-term revolving credit facilities, although liquidity risk is balanced by the trust's established banking relationships, track record of raising funds from the capital markets and proactive approach toward capital management.

Exhibit 1

CLAR has grown its asset portfolio significantly over the years, but leverage remains broadly stable



CLAR changed its financial year end to December from March in 2019. FYE = Financial year end. LTM = Last 12 months. The debt calculation incorporates the 50% equity treatment assigned to the trust's perpetual securities, and the lease liabilities from FYE Dec-2019 following the trust's adoption of the Singapore Financial Reporting Standard 116 on 1 April 2019.

Sources: Company, Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

- » Established market position in Singapore and geographic diversification
- » Stable operating track record and income generation from a diversified portfolio of good-quality industrial assets
- » Refinancing risk mitigated by its track record of access to funding and established banking relationships

Credit challenges

- » Acquisitive growth strategy
- » Inadequate liquidity for the next 12-18 months because of the use of short-term revolving credit facilities and debt maturities

Rating outlook

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.

Factors that could lead to an upgrade

CLAR's rating could be upgraded 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 Moody's-adjusted net debt/EBITDA drops below 6.0x on a sustained basis.

Factors that could lead to a downgrade

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

Key indicators

Exhibit 2

CapitaLand Ascendas REIT

SGD millions	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-22 (F)	FYE Dec-23 (F)
Total deposited assets	14,968	17,548	17,755	18,181	18,487
EBITDA	725	836	811	857	923
Debt / total deposited assets	36%	39%	40%	40%	41%
Net debt / EBITDA	7.1x	7.7x	8.4x	8.3x	7.9x
EBITDA / interest expense	4.3x	5.1x	4.8x	4.5x	4.4x
Secured debt / total deposited assets	4%	3%	3%	3%	3%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (F) are our opinion and do not represent the views of the issuer.

[2] FYE = Financial year end. LTM = Last 12 months.

[3] The debt calculation incorporates lease liabilities from the 12 months that ended December 2019 following the trust's adoption of the Singapore Financial Reporting Standard 116 on 1 April 2019.

[4] Debt metrics in LTM Jun-22 and the forecasts include the pro rata share of debt at 1 Science Park Drive.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

CapitalLand Ascendas REIT (CLAR) was 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. The trust was formerly known as Ascendas Real Estate Investment Trust and was renamed as CLAR in September 2022.

The trust's sponsor, CapitalLand Investment Limited (CLI), is a 53%-owned subsidiary of [Temasek Holdings \(Private\) Limited](#) (Aaa stable), which, in turn, is wholly owned by the [Government of Singapore](#) (Aaa stable). As of 15 June 2022, CLI held an 18% stake in CLAR. CLAR is managed by CapitalLand Ascendas REIT Management Limited, while the properties in Singapore are managed by Ascendas Services Pte Ltd, both of which are wholly owned subsidiaries of CLI.

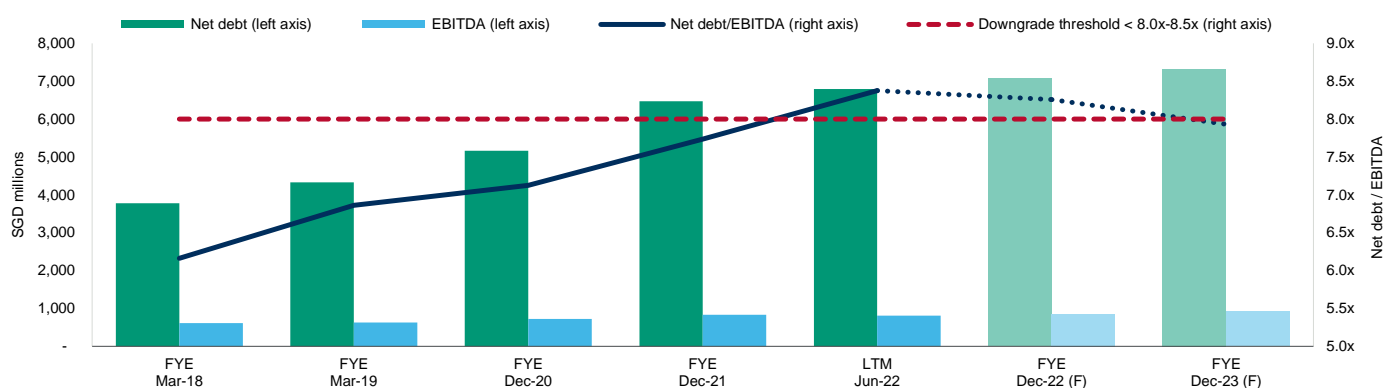
Detailed credit considerations

Leverage will weaken temporarily in 2022 before moderating over the next two years

We expect CLAR's leverage, as measured by net debt/EBITDA, to increase because of debt-funded investments and our expectation of weaker margins. Leverage will rise to around 8.3x in 2022 before moderating to less than 8.0x in 2023 because of full-year earnings contribution from the newly acquired assets and modest margin improvement as CLAR offsets rising costs by raising service charges for its tenants.

Exhibit 3

Leverage will moderate as earnings increase



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

In 2022, CLAR announced around SGD500 million of acquisitions and a convert-to-suit development project, which will increase its net debt. However, full-year earnings from these assets are only expected in 2023 and 2024 after the transactions close. These transactions were consummated at a net property income yield ranging from 5% to 9%, and the assets have occupancies and weighted average lease expiries above the portfolio average.

Exhibit 4

CLAR announced around SGD500 million of acquisitions and a convert-to-suit development project in the first nine months of 2022

Assets	Location	Asset type	Completion date	Transaction Type	NPI yield	WALE	Occupancy rate	Lease tenure	Total cost (SGD million)
7 logistics properties	Chicago, US	Logistics	Jun-22	Acquisition	5.1%	5.0 years	100.0%	Freehold	137
622 Toa Payoh Lorong 1	Singapore	Industrial	4Q 2022	Acquisition	6.8%	4.5 years	95.7%	21 years	110
1 Buroh Lane	Singapore	Logistics	4Q 2022	Acquisition	6.9%	7.0 years	100.0%	21 years	196
6055 Lusk Boulevard	San Diego, US	Business space	4Q 2023	Convert-to-suit	9.0%	11.5 years	100.0%	Freehold	56
TOTAL:									499

WALE refers to weighted average lease expiry; NPI refers to net property income.

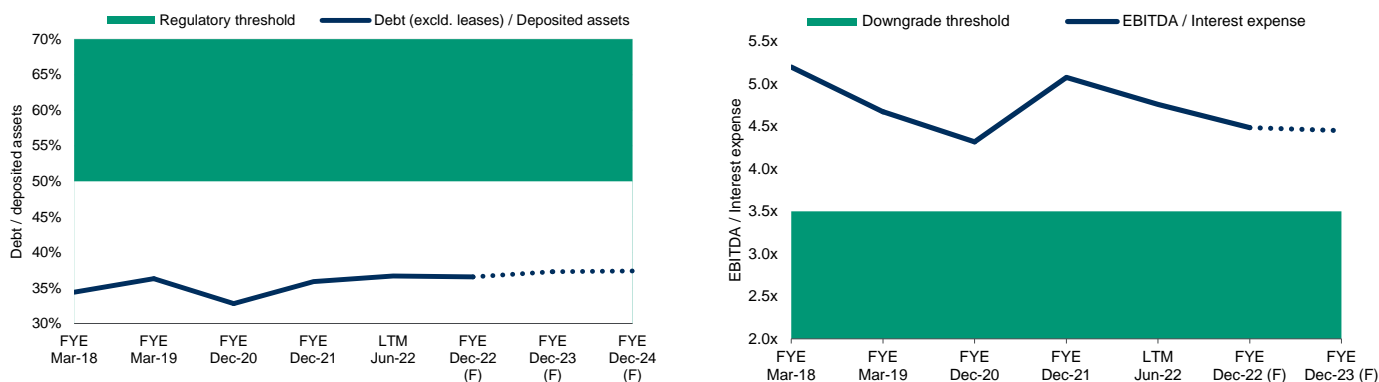
Source: Company

We also expect CLAR's EBITDA margin to improve to around 65% in 2023 from 62% in the 12 months that ended 30 June 2022 because the trust raised service charges in October 2022 for its tenants in Singapore to help offset rising utilities costs. For the overseas portfolio, most of the utilities costs are reimbursed by its tenants.

CLAR's leverage is high and the trust has limited capacity under its downgrade threshold. However, CLAR's gearing ratio and interest coverage will remain well positioned against their respective downgrade and regulatory thresholds over the next two years.

Exhibit 5

CLAR's gearing and interest coverage remain well positioned against their respective thresholds



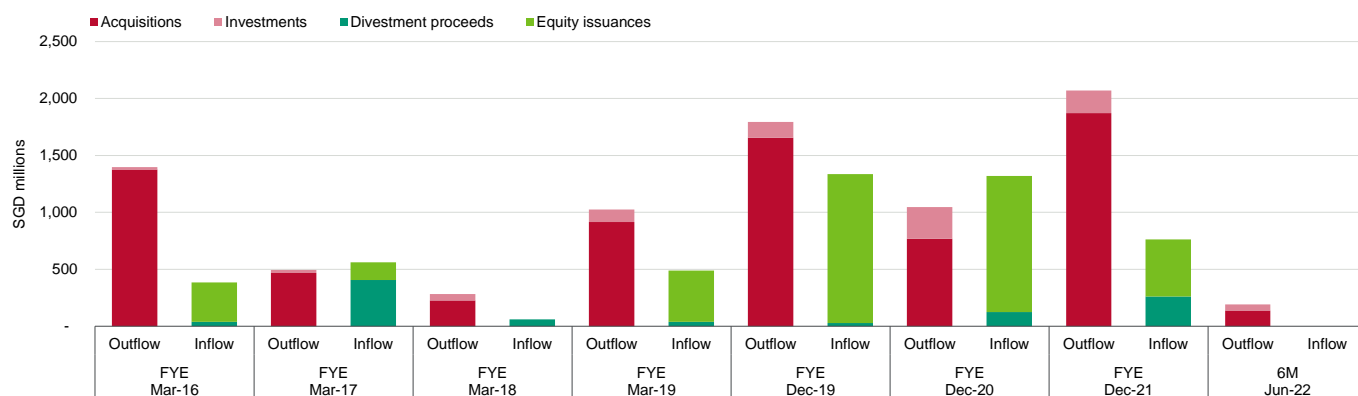
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Acquisitive growth strategy balanced with prudent financial policies

CLAR's appetite for growth has increased since 2015, when it expanded its investment mandate to explore opportunities beyond Singapore. Nonetheless, we expect CLAR to remain financially prudent while growing its portfolio. The trust has demonstrated a track record of funding its investments with a mix of divestments, debt and equity. This included around SGD3.5 billion of equity issuances between 2018 and 2021.

Exhibit 6

CLAR has partly funded its growth with divestments and equity issuances



Source: Company

CLAR's diversification into Australia, Europe and the US has improved its portfolio quality because the assets in these markets have freehold land titles while industrial land in Singapore are typically leasehold for a period of 30-60 year. Furthermore, these overseas markets tend to have triple net leases and rent escalation features, whereas leases in Singapore typically have three-year tenures with no rental escalations. CLAR will continue to focus on developed markets because of their stable economic fundamentals.

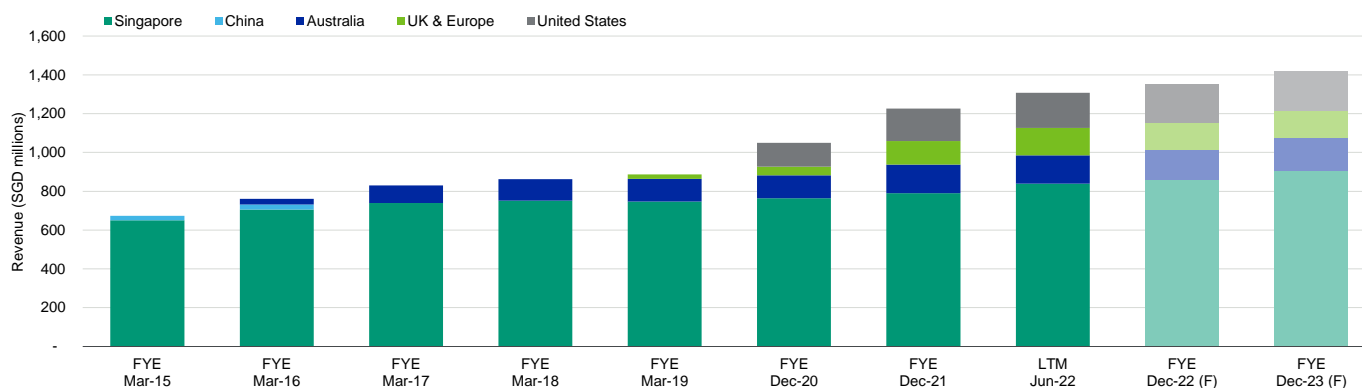
Stable operating track record backed by a good-quality portfolio of geographically diversified industrial assets

CLAR has been able to generate stable income through economic cycles, helped by its diversified asset portfolio. In addition to geographic diversification, the trust's portfolio of good-quality industrial assets is spread across three property subsegments — business space and life sciences, logistics, and industrial and data centers — which are exposed to different market dynamics and have different occupancy and rental trends. The positioning of the portfolio also allows CLAR to capture growth in the technology, logistics and life sciences industries.

We expect CLAR's revenue to grow by around 5% in 2023, driven mainly by the contributions from its newly acquired assets in the US and Singapore. Consequently, we expect assets in Singapore, Australia, the US and Europe (including the UK) to account for around 64%, 12%, 14% and 10% of its 2023 revenue, respectively.

Exhibit 7

CLAR's revenue will grow by around 5% in 2023, driven by acquisitions



CLAR changed its financial year end to December from March in 2019.

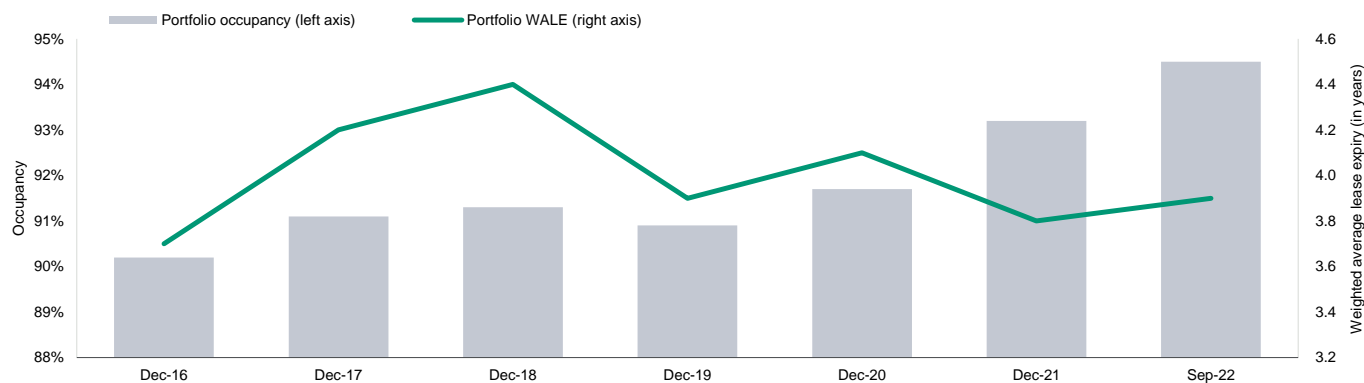
Sources: Company and Moody's Investors Service estimates

CLAR is not exposed to tenant concentration risk because its largest tenant [Singapore Telecommunications Limited](#) (A1 stable) accounted for 3.2% of its monthly gross revenue; and its top 10 tenants contributed 16.1% of its monthly gross revenue as of 30 September 2022.

As of 30 September 2022, CLAR recorded a portfolio occupancy rate of 94.5% and portfolio weighted average lease expiry (WALE) of 3.9 years. The trust has consistently recorded occupancy rates in excess of 90% and WALE of three to four years.

Exhibit 8

CLAR has consistently recorded occupancy rates in excess of 90% and WALE of three to four years



WALE refers to weighted average lease expiry.

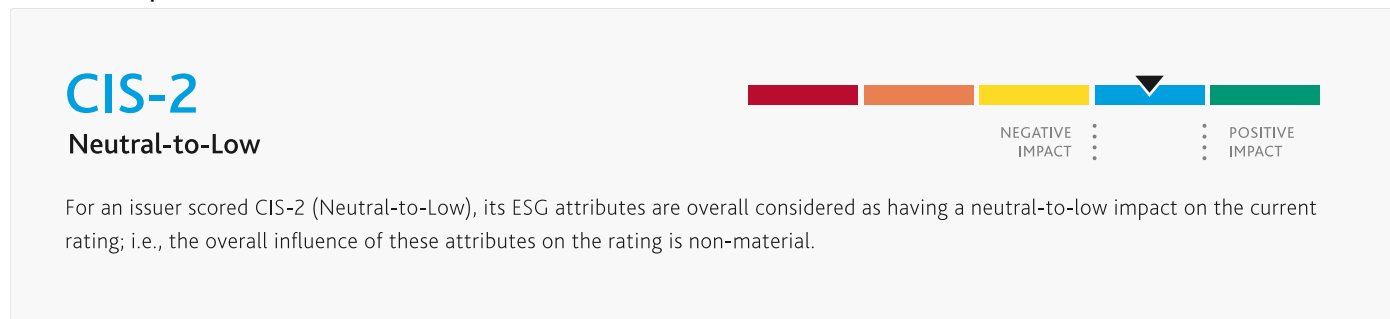
Source: Company

ESG considerations

CapitaLand Ascendas REIT's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

ESG Credit Impact Score



Source: Moody's Investors Service

CLAR's ESG credit impact score is neutral to low (**CIS-2**). The trust's prudent financial policies and management track record will help to manage its exposure to moderately negative environmental risks.

Exhibit 10

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

CLAR has moderately negative credit exposure to environmental risks (**E-3**). This reflects its exposure to carbon transition risk because evolving regulations and growing stakeholder expectations could entail increased investments to reduce carbon emissions and improve energy efficiency. It also considers CLAR's exposure to physical climate risks because it has significant assets in Singapore, which as a low-lying island nation is vulnerable over the long run to rising sea levels.

Social

CLAR has neutral to low credit exposure to social risks (**S-2**). Its portfolio of industrial assets enables the trust to capture growth in the technology, e-commerce, logistics and life sciences industries.

Governance

CLAR has neutral to low credit exposure to governance risks (**G-2**). This reflects its prudent financial policies and management track record, having established CLAR as a leading industrial REIT in Singapore. It also considers related-party transactions between CLAR and its sponsor, although the risk is mitigated by regulatory oversight provided by the Monetary Authority of Singapore and exercised through the board, which consists mostly of independent directors

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

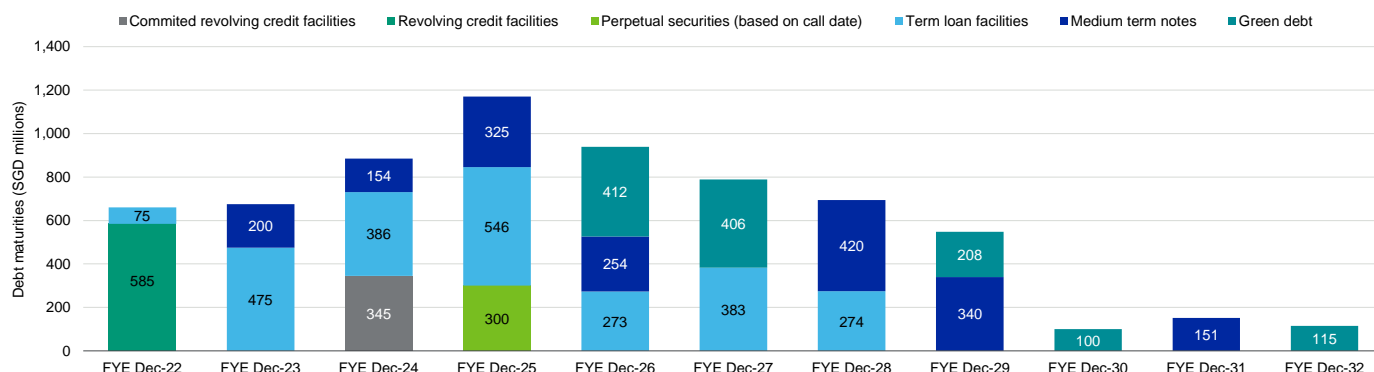
Liquidity analysis

CLAR's liquidity has always been inadequate and will remain inadequate for the next 12-18 months. The inadequate liquidity mainly stems from the trust's reliance on revolving credit facilities. As of September 2022, the trust held cash and cash equivalents of around 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. Nonetheless, we expect refinancing risk to be mitigated by the trust's track record of access to funding and established banking relationships.

Exhibit 11

CLAR has a well-balanced debt maturity profile

As of 30 September 2022



Source: Company

We view CLAR's use of revolving credit facilities as credit negative because these facilities are mostly short term and result in a mismatch with the trust's long-dated assets. Although the revolving credit facilities are largely uncommitted, the trust successfully rolled over or refinanced these facilities with long-term loans as they came due over the past decade. CLAR prudently manages its debt maturities and ensures that no more than 20% of debt will be due in each year.

Furthermore, CLAR has demonstrated a track record of accessing funds from the debt and equity markets. We expect the trust's relationship with a reputable sponsor, CLI, to support its ability to access capital.

As of 30 September 2022, CLAR had a weighted-average debt maturity of 3.5 years at a weighted-average all-in debt cost of 2.2%. The trust has also achieved a high level of natural hedge for its overseas assets. Around 71% of its Australian asset portfolio is funded by borrowings in Australian dollars, while 100% of its asset portfolios in Europe, 70% in the UK and around 77% in the US are funded by borrowings in euros, British pounds and US dollars, respectively.

Structural considerations

The rating for CLAR's SGD300 million perpetual securities is notched down to Baa2 from the A3 issuer rating to reflect the legal subordination inherent in perpetual securities, according to our standard approach for assigning a rating to such hybrid securities.

We have assigned a 50% equity rating to the perpetual issuance, such that half of the security is treated as debt when assessing the overall credit quality of CLAR. Similarly, the perpetual distributions are equally split between interest expense and distributions. We expect subordination to remain at around the same level over the next 12-18 months.

Methodology and scorecard

When mapped to our [REITs and Other Commercial Real Estate Firms Methodology](#), published in September 2022, the scorecard-indicated outcome for CLAR is Baa1 based on its financials for the 12 months that ended 30 June 2022 and our 12-18-month forward view (see Exhibit 12). The A3 rating reflects the trust's strong franchise and track record of stable operating performance.

Exhibit 12

Rating factors

CapitaLand Ascendas REIT

REITs and other commercial real estate firms industry grid [1][2][3]		Current LTM 06/30/2022		Moody's 12-18 Month Forward View As of 11/08/2022 [4]	
Factor 1: Scale (5%)	Measure	Score	Measure	Score	
a) Gross assets (\$ billions)	\$12.9	A	\$13.1 - \$13.4	A	
Factor 2 : Business profile (25%)					
a) Market positioning and asset quality	A	A	A	A	
b) Operating environment	Baa	Baa	Baa	Baa	
Factor 3 : Liquidity and access to capital (25%)					
a) Liquidity and access to capital	Baa	Baa	Baa	Baa	
b) Unencumbered assets / gross assets	93%	A	93%	A	
Factor 4 : Leverage and coverage (45%)					
a) Total debt + preferred stock / gross assets	39%	Baa	40%	Baa	
b) Net debt / EBITDA	8.4x	B	7.9x - 8.3x	B - Ba	
c) Secured debt / gross assets	3%	A	3%	A	
d) Fixed-charge coverage	4.6x	A	4.3x - 4.4x	Baa	
Rating:					
a) Scorecard indicated outcome		Baa1		Baa1	
b) Actual rating assigned				A3	

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Debt includes a portion of hybrid securities considered to have debtlike features, as explained in [Hybrid Equity Credit](#), dated 10 September 2018.

[3] Debt metrics in LTM Jun-22 and the forecasts include the pro rata share of debt at 1 Science Park Drive.

[4] This represents Moody's forward view, not the view of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Ratings

Exhibit 13

Category	Moody's Rating
CAPITALAND ASCENDAS REIT	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Senior Unsecured	A3
Preference Stock -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 14

Peer comparison

CapitaLand Ascendas REIT

(in US millions)	CapitaLand Ascendas REIT			Mapletree Pan Asia Commercial Trust			CapitaLand Integrated Commercial Trust		
	A3 Stable			Baa1 Stable			A3 Negative		
	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Dec-20	FYE Dec-21	LTM Jun-22
Real estate gross assets	\$11,443	\$13,152	\$12,880	\$6,326	\$6,662	\$6,639	\$17,512	\$17,249	\$18,114
Debt / Gross assets	36%	39%	39%	33%	34%	33%	41%	37%	41%
Net debt / EBITDA	7.1x	7.7x	8.3x	8.6x	8.4x	8.5x	18.3x	9.0x	10.4x
Secured debt / Gross assets	4%	3%	3%	0%	0%	0%	5%	4%	6%
EBITDA / Interest expense	4.3x	5.1x	4.8x	4.3x	4.4x	4.7x	3.9x	5.1x	5.4x

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year end. LTM = Last 12 months. CLAR changed its financial year end to December from March in 2019. FYE Dec-19 figures are based on data for the nine months that ended 31 December 2019. Metrics exclude the pro rata share of debt at 1 Science Park Drive.

Source: Moody's Financial Metrics™

Exhibit 15

Moody's-adjusted debt breakdown

CapitaLand Ascendas REIT

(in SGD Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
As Reported Debt	5,229	5,292	6,689	6,847
Hybrid Securities	150	149	149	149
Moody's-Adjusted Debt	5,380	5,441	6,838	6,996

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year end. CLAR changed its financial year end to December from March in 2019. FYE Dec-19 figures are based on data for the nine months that ended 31 December 2019. Metrics exclude the pro rata share of debt at 1 Science Park Drive.

Source: Moody's Financial Metrics™

Exhibit 16

Moody's-adjusted EBITDA breakdown

CapitaLand Ascendas REIT

(in SGD Millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
As Reported EBITDA	530	659	1,208	1,276
Unusual	-32	66	-372	-465
Moody's-Adjusted EBITDA	498	725	836	811

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year end. CLAR changed its financial year end to December from March in 2019. FYE Dec-19 figures are based on data for the nine months that ended 31 December 2019. Metrics exclude the pro rata share of debt at 1 Science Park Drive.

Source: Moody's Financial Metrics™

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