

Rating Action: Moody's affirms Ascendas REIT's A3 ratings on acquisition of properties in the US and Singapore; outlook stable

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Singapore, November 05, 2019 -- Moody's Investors Service has affirmed Ascendas Real Estate Investment Trust's (Ascendas REIT) A3 issuer and senior unsecured ratings, the provisional (P)A3 senior unsecured rating on its SGD5 billion medium-term notes program, and the Baa2 rating on its subordinated perpetual securities.

The outlook on all ratings is stable.

RATINGS RATIONALE

The affirmation follows Ascendas REIT's announcement on 1 November 2019 that it plans to acquire 28 business park properties in the United States and two in Singapore for a total acquisition cost of SGD1,706 million.

The transaction is subject to certain conditions, including the receipt of regulatory and unit holder approvals.

"The ratings affirmation reflects our expectation that Ascendas REIT's credit metrics after the transaction will remain within the parameters of its A3 ratings -- with debt/deposited assets around 40% and net debt/EBITDA below 7.5x on a normalized basis -- because the trust plans to fund the acquisition with a larger proportion of equity than debt," says Jacintha Poh, a Moody's Vice President and Senior Credit Officer.

Ascendas REIT plans to raise around SGD394 million of unsecured debt facilities -- already committed by its banks -- and around SGD1,311 million of equity (including acquisition fees in units). The equity fund raising, excluding its sponsor's undertaking, is underwritten by banks.

"The proposed acquisition marks Ascendas REIT's maiden investment in the US, and improves the trust's geographical diversification beyond existing assets in Singapore, Australia and the UK," adds Poh.

Post transaction, Ascendas REIT's overseas assets will contribute 28% of its portfolio value, while Singapore assets will account for the remaining 72%. The trust will also benefit from greater income diversification. Moody's estimates that the proportion of revenue from overseas assets will increase to around 27% for the financial year ending 31 December 2020 from 16% for the financial year ending 31 December 2019.

Ascendas REIT will immediately benefit from the recurring cash flow available from the new properties. The US properties had an occupancy rate of 93.7% and a weighted average lease expiry of 4.2 years at 30 September 2019. Moreover, the majority of the leases are embedded with annual rental step-up of 2.5% to 4.0%. The Singapore properties had an occupancy rate of 94.6% and a weighted average lease expiry of 6.9 years at 30 September 2019.

Ascendas REIT's liquidity is inadequate over the next 12-18 months. As of 30 September 2019, the trust had SGD447 million of revolving credit facilities and upcoming debt maturities of SGD100 million in December 2019 and SGD366 million in 2020. Nonetheless, Moody's expects refinancing risk will be mitigated by the trust's track record of access to funding and established banking relationships.

In terms of environmental, social and governance (ESG) factors, Moody's has considered the governance risk stemming from related-party transactions between Ascendas REIT and its sponsor, CapitaLand Limited. This risk is mitigated by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through the board, which for the majority consists of independent directors. Further, there is an alignment of interest between Ascendas REIT and its sponsor because the latter has a 19% stake in the trust.

Ascendas REIT's A3 rating reflects its (1) stable operating track record and resilient income generation from a diversified portfolio of high-quality industrial assets across Singapore, Australia and the UK; (2) established market position as one of the largest industrial landlords in Singapore; and (3) financial discipline and prudent policies in maintaining its credit metrics, while the trust continues to grow through acquisitions.

At the same time, the rating is constrained by Ascendas REIT's inherent exposure to liquidity risks that all Singapore REITs face, given the high dividend payout regulatory requirements and minimal cash balances, as well as its reliance on short-term revolving credit facilities.

The rating outlook is stable, reflecting Moody's expectation that Ascendas REIT will maintain its prudent operating and financial policies as it expands its asset portfolio.

The rating could be upgraded if Ascendas REIT continues to improve its geographic diversification while strengthening its credit metrics, such that adjusted debt/total deposited assets falls below 35% and adjusted net debt (including lease liabilities)/EBITDA drops below 6.0x on a sustained basis.

On the other hand, Ascendas REIT's rating could be downgraded if (1) the operating environment deteriorates, leading to higher vacancy levels and a decline in operating cash flow or a fall in asset valuations; or (2) the trust's credit metrics weaken, such that adjusted net debt (including lease liabilities)/EBITDA rises above 8.0x or adjusted EBITDA/interest coverage falls below 3.5x.

In addition, a material change to Ascendas REIT's business risk profile resulting from expansions into higher risk jurisdictions could pressure the trust's rating.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ascendas Real Estate Investment Trust (Ascendas REIT) was listed on the Singapore Stock Exchange in November 2002. At 30 September 2019, the trust had a diversified portfolio of 97 properties in Singapore, 35 in Australia and 38 in the UK, with a total appraised value of SGD11.1 billion.

The trust's sponsor, CapitaLand Limited, is a 51%-owned subsidiary of Temasek Holdings (Private) Limited (Aaa stable), which is in turn wholly owned by the Government of Singapore (Aaa stable). At 28 October 2019, CapitaLand held a 19% stake in Ascendas REIT.

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