

17 Jul 17, 8.15am/11.15am Morning Call/Webinar

Singapore Weekly Update

SG Strategy (Week 2, July 17)

Company IPO
NetLink NBN Trust

Company Initiation
Ascendas REIT

Company Results
Soilbuild Business Space REIT

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- **Maintain Neutral : STI Target 3270**
- **Macro backdrop**
 - Pickup in global indicators: ISM New orders, German IFO, KR/TW Exports
 - Goldilocks scenario for equities: growth with low inflation
- **BUY sustainable yield and property**
- **Company updates**
 - IPO of NetLink Trust
 - GLP takeover

NetLink NBN Trust (offer price:S\$0.81, Listing 19Jul 3pm)



- Market Cap: S\$3.129b ; No of shares: 3.8b; Dividend yield: 5.7% (FY3/19e)
- Revenue (approx.): 60% residential, 10% non-resi/co-location, 15% ducts/CO
- Customers: 54% Singtel, 28% Starhub, 12% M1, 5% MyRepublic
- Assets: 76k km fibre, 16.2k km ducts, 30k building/1.4m resi home access, FBO License expire 2034
- Positives:
 - Sole provider of residential fibre in SG
 - High operating leverage with 70% EBITDA margin
 - Dividends are tax-exempt
 - EBITDA growing ~7% p.a. over next 2 years (as per prospectus)
 - Assumptions in prospectus look reasonable
- Items to take note:
 - Regulated asset base: returns assessed every 5 years
 - Depend on leverage for distribution (Figure: 2); 3.2x debt/EBITDA

Figure 1: Share details

	Shares (m)	Over-allot Share (m)
Singtel	966	966
Public	2898	3021
	3864	3987
Market cap. (S\$m)	3130	3230

Figure 2: Financial summary

	Dist. S\$m	DPU S\$ cts	Yield	EBITDA S\$m	CFO S\$m	Capex* S\$m	FCF S\$m
FY3/18 (8months)	113.3	2.93	5.4%	221.6	140.5	-225.8	-85.3
FY3/19	179.3	4.64	5.7%	341.9	217.6	-119.6	98.0

* recurring capex is S\$40-60m

Source: NetLink NBN Trust prospectus

Ascendas REIT

Growth through rebalancing, stability through diversification

Richard Leow

Phillip Securities Research Pte Ltd

17 July 2017

Initiation of coverage

Accumulate, TP: \$2.86, Last close: \$2.60, FY18e DPU: 15.79 cents

- 52-week range: S\$2.20 – S\$2.76
- Market cap: S\$7.5 billion

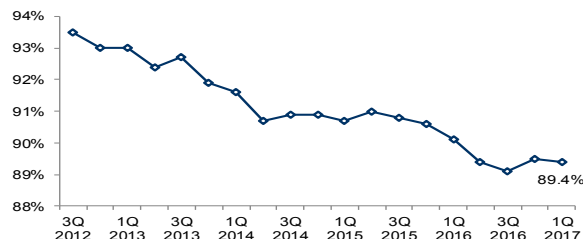


1Q 2017 Sector Report (8 May 2017)

Improving outlook for Industrial rent

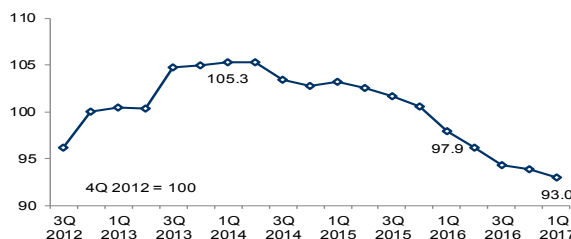
- First sign of occupancy stabilising
- Upcoming supply tapering in 2018
- Uptick in industrial activity

Sector Occupancy



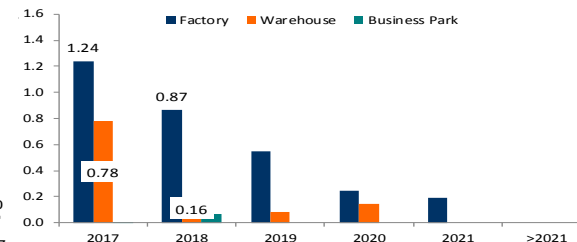
Source: JTC, PSR

Sector Rental Index



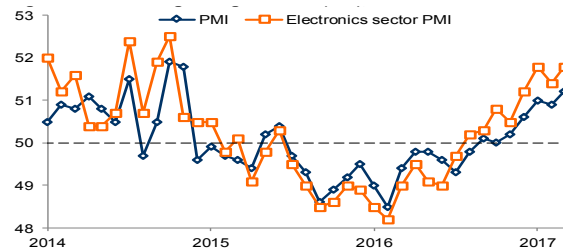
Source: JTC, PSR

Supply pipeline profile, as at 1Q 2017



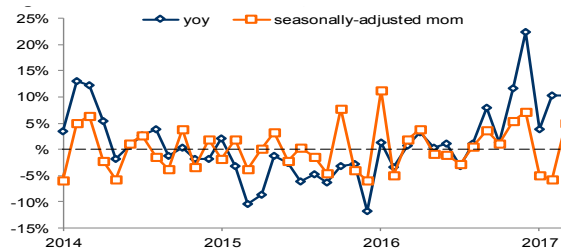
Source: JTC, PSR

Purchasing Managers' Index



Source: Bloomberg, SIPMM, PSR

Industrial Production Index



Source: Bloomberg, EDB, PSR

Established platform with support from Sponsor to deliver consistent returns

- DPU has grown 3.0% CAGR over five years; DPU expected to be sustainable, through prudent management of the portfolio and capital

Stability through diversification

- 131 properties as at end-March 2017
- Diversified across property type, geography, lease structures and tenant trade sectors
- No single property accounts for more than 5.4% of gross revenue
- Diverse source of capital

Growth through rebalancing

- Singapore: under continual rebalancing towards higher-value added manufacturing
- Australia: continue to expand portfolio
- China: divested in FY17

Largest Industrial REIT with an improving outlook for Industrial rents

- Oversupply of Industrial space a concern, but supply is tapering in 2018
- Uptick in Industrial activity leads us to believe that rent to bottom by 2018

A ready pipeline of Industrial space from Sponsor

- No ROFR, but access to pipeline of over S\$1 billion of Business & Science Park properties in Singapore

Sizeable Australia platform, tapping on favourable outlook

- Positive GDP growth expected
- Robust leasing demand in Sydney and Melbourne; 76% of Australia platform exposure

Relatively low gearing affords debt headroom for inorganic growth

- 3.0% cost of debt lower than median 3.4%
- Aggregate leverage of 33.8%, debt headroom to grow AUM by 20%

Attractive distribution yield

- 6.1% forward yield

Protracted uncertainty in business sentiment

- Cautious outlook from tenants and reluctance to renew leases or expand
- Muted demand for space and pressure on rent

Disorderly interest rate hikes

- Faster than expected hike in interest rates, negatively impact income available for distribution

Australia portfolio faces two key risks

- Unfavourable changes to the withholding tax regime and concentration in Logistics & distribution facilities

Largest REIT in the S-REIT universe by market capitalisation, and was the first Industrial REIT to be listed

Backed by Sponsor, Ascendas-Singbridge Group

- 51:49 jointly-owned by Temasek Holdings and JTC Corporation
- 30 year track record in the industry and with a pipeline to over S\$1 billion of Business & Science Park properties in Singapore

The Manager, Ascendas Funds Management (S) Limited (AFM)

- Wholly-owned subsidiary of the Sponsor
- Three-pronged strategy of (1.) proactive portfolio management, (2.) disciplined value-adding investments and (3.) prudent capital & risk management

The Trustee, HSBC Institutional Trust Services (Singapore) Limited

Singapore portfolio of 103 properties as at end-March 2017

- S\$8.57 billion; 3.03 million sq m
- Five property types of:
 - (1.) Business & Science Park properties,
 - (2.) Integrated development, amenities & retail properties (IDAR),
 - (3.) Hi-specification industrial properties & data centres,
 - (4.) Light industrial properties & flatted factories and
 - (5.) Logistics & distribution centres

Australia portfolio of 27 Logistics & distribution centres and one Business Park as at end-March 2017

- S\$1.31 billion; 692,000 sq m

Established and diversified platform that continues delivering returns

- Achieving **stability** through portfolio **diversification**
 - Diversification by geography and property type
 - Diversification by number of properties
 - Diversification by tenant trade sector and individual tenants
- Delivering **growth** through active portfolio **rebalancing**
 - Rebalancing the Singapore portfolio through inorganic growth
 - Made a sizeable investment in the Australian portfolio
 - Exited from China platform in FY17

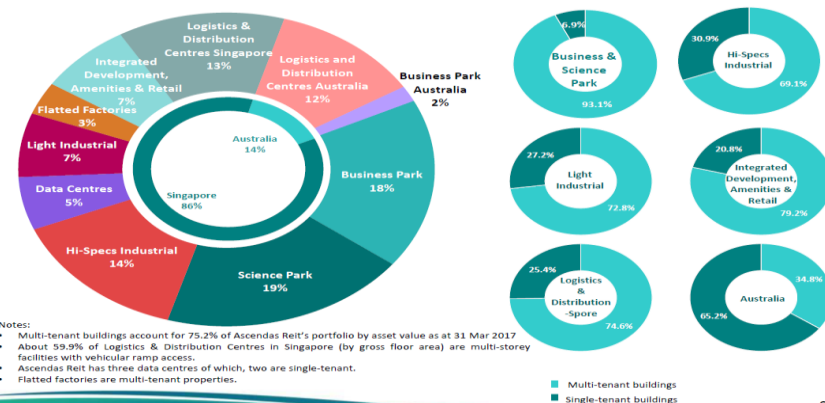
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Investment Thesis

Diversification by geography and property type

- Singapore remains home base
 - China portfolio divested during FY17
 - 86%/14% split between Singapore and Australia by valuation
 - Five property types, majority of leases are MTB
- Australia attractive for freehold land and market transparency
 - 28 Logistics facilities and one Business Park property
 - Majority are SUA



Source: Company

Notes:

- Multi-tenant buildings account for 75.2% of Ascendas Reit's portfolio by asset value as at 31 Mar 2017
- About 59.9% of Logistics & Distribution Centres in Singapore (by gross floor area) are multi-storey facilities with vehicular ramp access.
- Ascendas Reit has three data centres of which, two are single-tenant.
- Platted factories are multi-tenant properties.

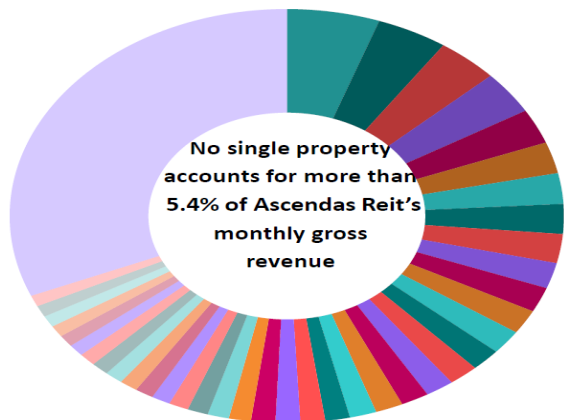
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Diversification by number of properties

- 131 properties (end-March 2017) in the portfolio results in largest contributor of 5.4% to the portfolio gross revenue
- Top five properties contribute less than 20% of portfolio gross revenue

Diversified Portfolio



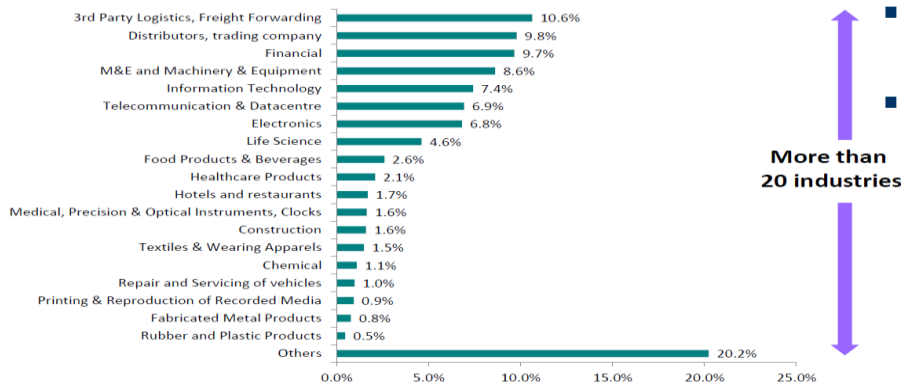
Aperia, 5.4%
ONE @ Changi City, 4.1%
12, 14, 16 Science Park Drive, 3.6%
1, 3, 5 Changi Business Park Crescent, 3.4%
Kim Chuan Telecommunication Complex, 2.7%
40 Penjuru Lane, 2.4%
TelePark, 2.4%
31 International Business Park, 2.3%
Neuros & Immunos, 2.3%
Hyflux Innovation Centre, 2%
The Arles, Sparkle & Gemini, 2%
TechPlace II, 1.9%
TechPoint, 1.9%
Nexus@One North, 1.7%
Pioneer Hub, 1.7%
Techview, 1.7%
TechPlace I, 1.6%
10 Toh Guan Road, 1.6%
DBS Asia Hub (Phase I & II), 1.6%
The Kendall, 1.4%
TechLink, 1.4%
Cintech III & IV, 1.4%
Corporation Place, 1.4%
Nordic European Centre, 1.3%
Siemens Centre, 1.3%
FoodAxis @ Senoko, 1.2%
HansaPoint @ CBP, 1.2%
138 Depot Road, 1.1%
Infineon Building, 1.1%
The Galen, 1.1%
Senkee Logistics Hub (Phase I & II), 1.1%
Giant Hypermart, 1%
The Capricorn, 1%
Changi Logistics Centre, 0.9%
The Alpha, 0.9%
AkzoNobel House, 0.9%
Courts Megastore, 0.9%
Acer Building, 0.9%
7 Grevillia Street, 0.9%
Others, 31.3%

Source: Company

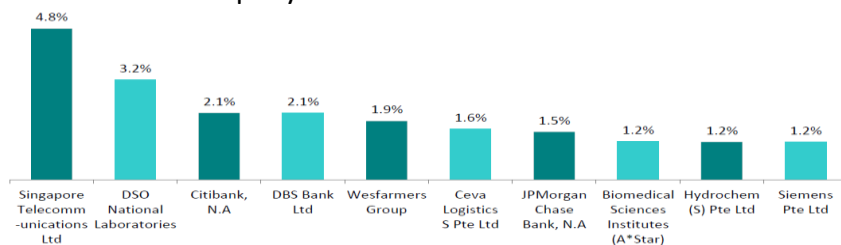
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Diversification by tenant trade sector and individual tenants



Source: Company



Source: Company

- Tenants are diversified across more than 20 trade sectors
- 3PL and freight forwarding is the largest – accounting for 10.6% of portfolio gross revenue
- 1,390 tenants
- Top 10 tenants account for 20.8% of portfolio gross revenue
- Largest tenant is Singapore Telecommunications Ltd – 4.8% of portfolio gross revenue
- Low single-customer concentration risk

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Rebalancing the Singapore portfolio through inorganic growth

- Expanded its exposure to Business & Science Park properties through 12, 14 and 16 Science Park Drive (DNV/DSO)
 - 65% weighted towards Business & Science Park properties, Hi-specifications industrial properties and data centres by valuation
- Ongoing re-development and AEI projects

Ongoing Singapore re-development projects

Property	Remarks	Commenced	Estimated Completion	Estimated Value (S\$ mn)
20 Tuas Ave 1 (formerly 279 Jln Ahmad Ibrahim)	Speculative development of a ramp-up 3-storey warehouse block. Conversion to MTB	1Q FY17 / 2Q 2016	4Q FY18 / 1Q 2018	61.4
50 Kallang Avenue	Façade cladding, reconfiguration of spaces, lift modernisation, new air conditioning system and enlarging windows for natural lighting etc. Conversion of MTB to Hi-Specs SUA	2Q FY17 / 3Q 2016	1Q FY18 / 2Q 2017	45.2

Source: Company, PSR

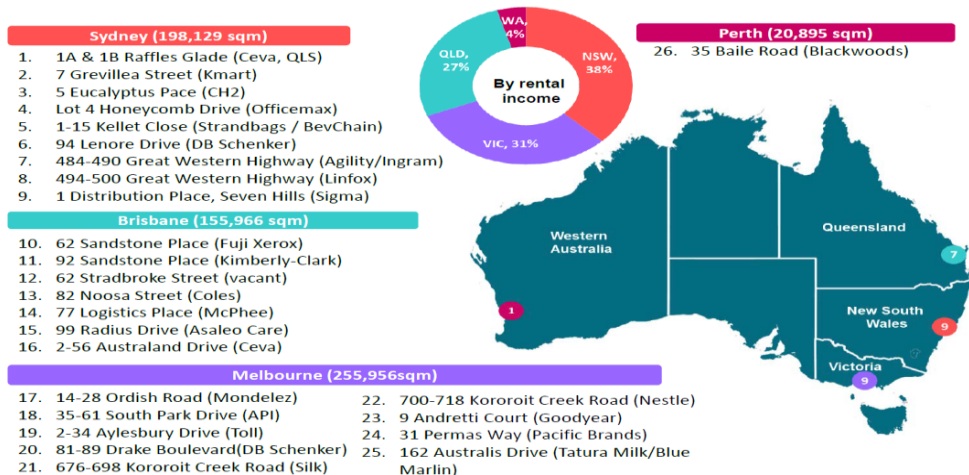
- Recycling of capital through divestments
 - Divested Four Acres Singapore & 10 Woodlands Link

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Made a sizeable investment in the Australian portfolio

- Foray in 2015, initial platform of 26 Logistics properties across 4 cities: Sydney, Brisbane, Melbourne and Perth; A\$1.01 billion
- Has since grown to A\$1.26 billion with the addition of two Logistics facilities and a Business Park property



Source: Acquisition of Australian Logistics Portfolio Presentation, 18 September 2015

Made a sizeable investment in the Australian portfolio

- Properties of comparable yield that are on freehold land
 - Australia: 6.42%, freehold land
 - Singapore: 6.27%, 46.5 years weighted average land lease expiry
- Acquisition of Logistics property in Dandenong South, Melbourne after FY17

Timeline for Australia portfolio

Date	Remarks	Acquisition completed
18 Sep 2015	Announced the proposed acquisition of 26 logistics properties for A\$1,013 million (S\$1,013 million), expected to complete in 4Q 2015 (3Q FY16)	Phase 1: 23 Oct 2015 Phase 2: 18 Nov 2015
24 Dec 2015	Announced the proposed acquisition of an A\$76.6 million (S\$76.6 million) logistics facility in Pemulwuy, Sydney (6-20 Clunies Ross Street), making it A-REIT's tenth logistics property in Sydney and its twenty-seventh in Australia	22 Feb 2016
9 Sep 2016	Announced the acquisition of two more properties: a business park property in Mascot, Sydney (197-201 Coward Street) for A\$143.4 million (S\$145.6 million), and the forward purchase of a logistics property in Dandenong South, Melbourne (Stage 4, Power Park Estate) for A\$24.8 million (S\$26.5 million)	Business park: 9 Sep 2016 Logistics facility: 3 April 2017

Source: Company, PSR

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 - **Exited from China platform in FY17**

Exited from China platform in FY17

- Negative impact in FY18e from absence of contribution
- Took profit at a good price and realised investment gains
 - Divested at capitalisation rates of 5% and realised gains of about S\$196.5 million over original cost

China divestments in FY17

	Divestment value (S\$ mn)	Original cost (S\$ mn)	Divestment gain (S\$ mn)	Completion date
A-REIT Jiashan Logistics Centre	25.4	21.3	4.1	17-Jun-16
Ascendas Z-Link	154.9	61.8	93.1	11-Jul-16
A-REIT City @Jinqiao	221.6	122.3	99.3	1-Nov-16

Source: Company, PSR

Valuation: Dividend Discount Model (DDM)

Absolute valuation: S\$2.86

Sources of growth in FY18e

- **Inorganic growth** in gross revenue: contributions from two Australian acquisitions completed in 2Q FY17 and 1Q FY18 and one BP property in Singapore completed in 4Q FY17; offset by China divestment
- **Organic growth** expected to be muted as Singapore portfolio (~87% by valuation) is currently facing oversupply situation
- Adverse impact on DPU due to dilutive conversion of ECS, which increased the number of issued units by ~10% during FY17

Dividend Discount Model

Y/E Mar	FY18e	FY19e	FY20e	FY21e	FY22e
Forecasted distributions (S\$)	0.158	0.162	0.162	0.162	0.163
PV of forecasted distributions (S\$)	0.148	0.142	0.132	0.124	0.117
Terminal value (S\$)					3.06
PV of terminal value (S\$)					2.19
Price Target (S\$)	2.86				
Assumptions					
Cost of equity	6.9%				
Terminal growth rate	1.5%				

Source: PSR

Valuation: Peer comparison

Larger capitalised REITs tend to trade at a premium

Peer relative data (arranged by Mkt. Cap.)

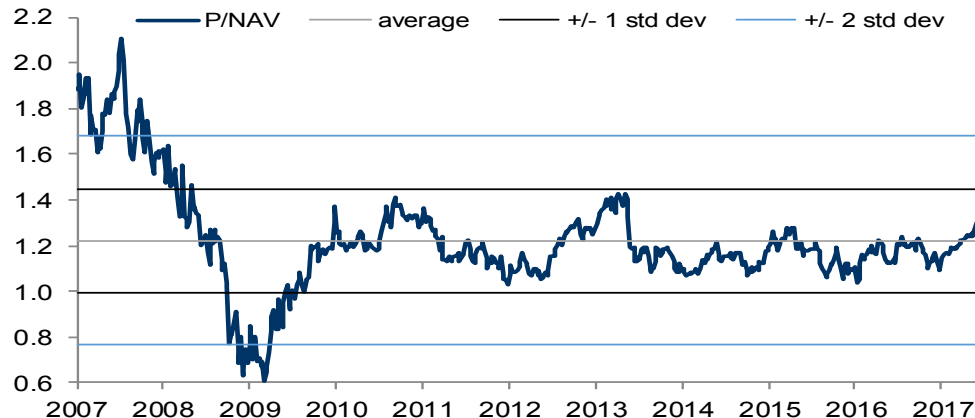
	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,474	2.59	1.26	6.1
Mapletree Industrial Trust	3,344	1.855	1.32	6.1
Mapletree Logistics Trust	2,964	1.185	1.14	6.3
Frasers Logistics & Industrial Trust	1,592	1.055	1.11	N.A.
AIMS AMP Capital Industrial REIT	948	1.485	1.07	7.4
Viva Industrial Trust	876	0.905	1.14	7.9
Cache Logistics Trust	843	0.935	1.21	8.0
ESR-REIT	783	0.600	0.95	6.8
Soilbuild Business Space REIT	775	0.740	1.03	8.1
Sabana Shari'ah Compliant REIT	479	0.455	0.76	8.5
Average			1.10	7.3

Source: Bloomberg (Updated: 13 July 2017), PSR

Valuation: Historical relative valuation

A-REIT traded at a discount to book value only once

- Below NAV at tail-end of GFC in 2008/2009.
- Never traded at discount to NAV again – lowest: 1.08x

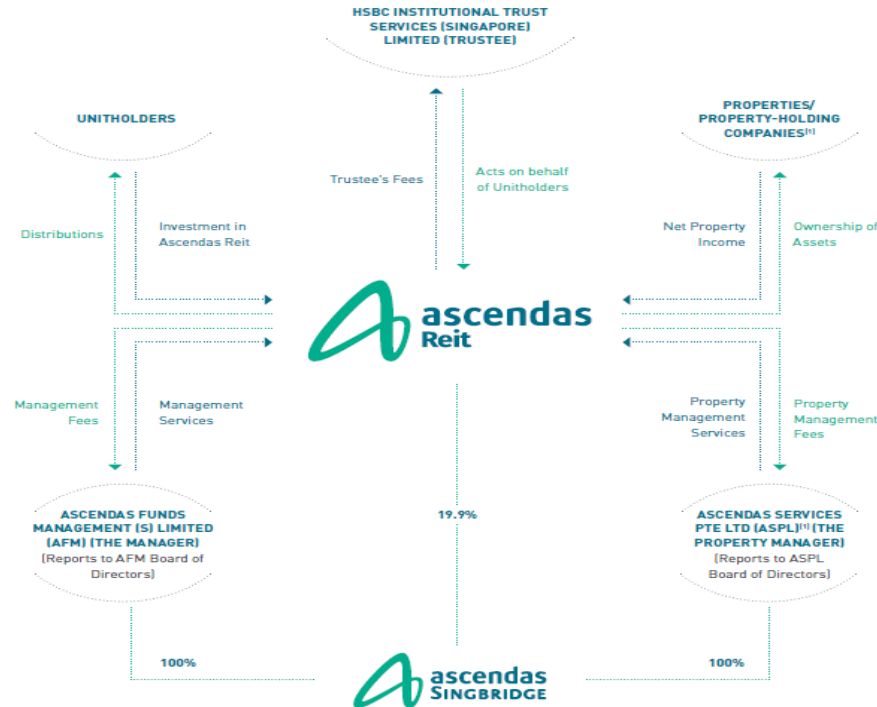


Source: Bloomberg, PSR

Appendix

REIT background & operational characteristics

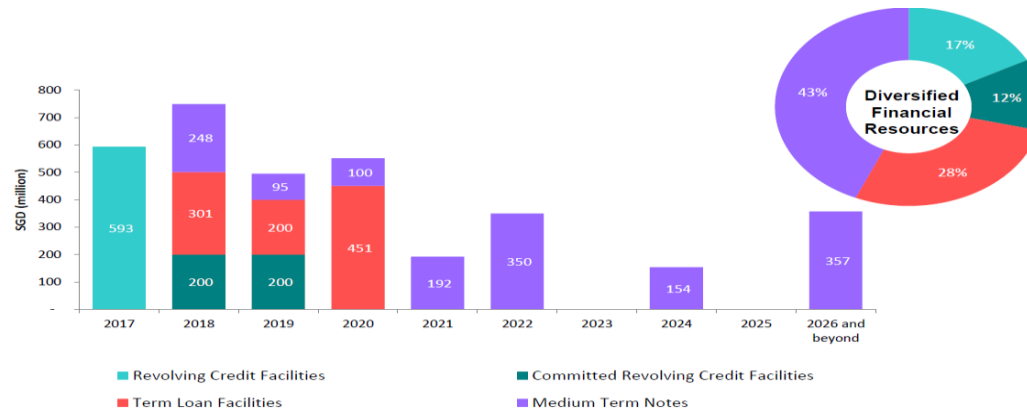
Trust structure



Source: Company FY17 Annual Report

Capital management

- Diversified sources of debt with well-spread maturity profile
- Four sources of debt facilities
- Average debt maturity profile of 3.3 years as at end-March 2017
- Strategy of having no more than 20% of debt maturing in any given financial year



Source: Company

Capital management

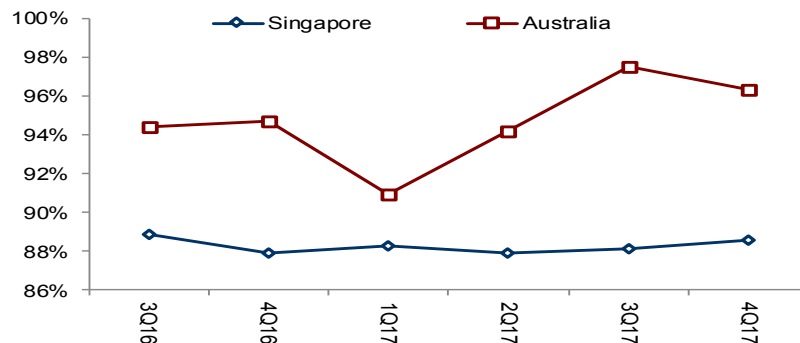
- Manageable gearing with available debt headroom
 - 33.8% gearing, S\$2.1 billion headroom, potential to grow AUM 20%
- Hedging of interest rate exposure
 - 78.9% hedged for weighted term of 3.2 years
- Diversified source of funds
 - Exchangeable collateralised securities (ECS), fully converted in FY17
 - Perpetual securities, S\$300 million, 4.75%, semi-annual
 - Consideration Units
 - Placement Units
- Unit buy-back mandate

Foreign-sourced income management

- AUD exposure has been swapped, 12-month rolling basis

Tenant management

- Healthy portfolio occupancy
 - SG high-80s, consistent with JTC sector-wide
 - Australia higher occupancy due to larger proportion of SUAs



Source: Company

- Evenly staggered lease expiry profile, WALE 4.3 years by gross revenue (peer median WALE 3.3 years)

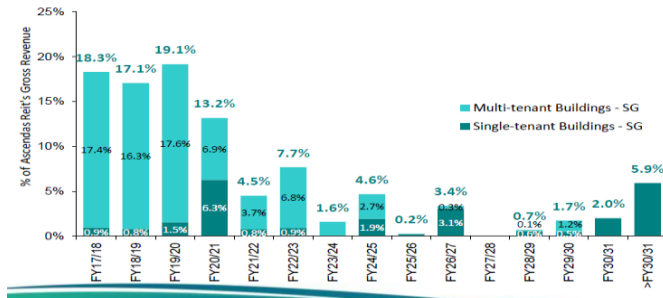
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REIT background & operational characteristics

Tenant management

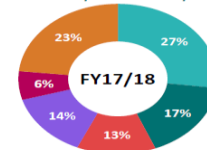
- Singapore portfolio, WALE 4.2 years by gross revenue
 - 18.3%/17.1% expiring in FY18/FY19, diversified across all property types
 - Concentration of MTB expiries

- Singapore portfolio weighted average lease to expiry (WALE) of 4.2 years
- Lease expiry is well-spread, extending beyond 2030
- 18.3% of Singapore's gross revenue is due for renewal in FY17/18



Source: Company

Breakdown of expiring leases for FY17/18 and FY18/19

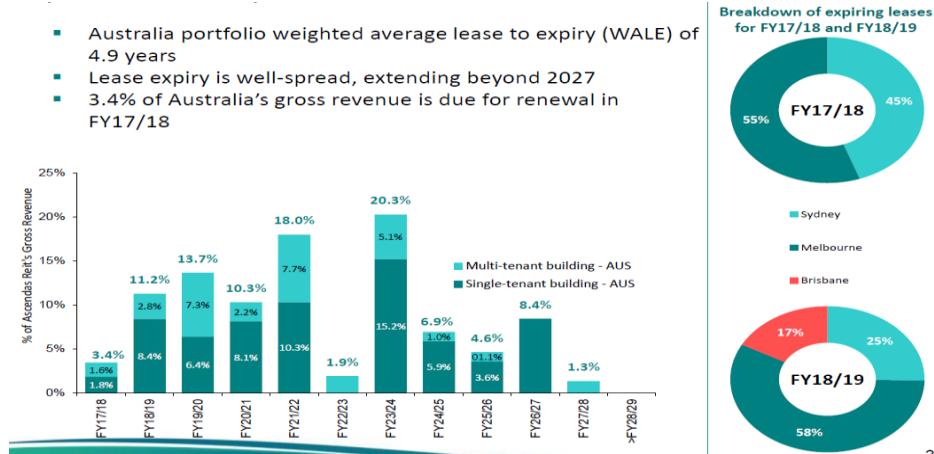


Appendix

REIT background & operational characteristics

Tenant management

- Australia portfolio, WALE 4.9 years by gross revenue
- 3.4%/11.2% expiring in FY18/FY19, mainly in Sydney and Melbourne
 - Concentration of SUA expiries



Source: Company

Investment Thesis - Established and diversified platform that continues delivering returns

- **Stability** through **diversification**
- **Growth** through **rebalancing**

Recommendation: Accumulate

Target Price: \$2.86

Last Close Price: \$2.60

FY18e DPU: 15.79 cents

Soilbuild Business Space REIT

72 Loyang Way a drag to portfolio

Richard Leow

Phillip Securities Research Pte Ltd

17 July 2017

Soilbuild Business Space REIT

(Neutral, TP: \$0.73, FY17e DPU: 5.66 cents (7.6%), Last: \$0.74)

Results at a glance

(SGD mn)	2Q17	2Q16	YoY	Comments
Gross revenue	21.6	19.6	10.1%	Bukit Batok Connection acquired in 3Q16 (27 Sep), higher Solaris, Tuas Connection and Tellus Marine; offset by lower 72 Loyang Way, West Park BizCentral and Eightrium
Net property income	18.7	17.3	8.1%	25.7% higher property expenses
Distributable income	15.4	14.7	4.3%	10.7% higher finance expenses
DPU (cents)	1.466	1.565	-6.3%	Effect of larger unit base from 1-for-10 Preferential Offering in 3Q16; payment of property and lease management fees in cash in 2Q17 vs. payment in Units in 2Q16
DPU, adj. (cents)	1.51	1.565	-3.3%	Assuming payment of property and lease management fees in Units in 2Q17 for comparability with 2Q16

Source: Company, PSR

QoQ improvement in occupancy from 91.8% to 92.6%

- Eightrium back to full occupancy (from 97.9%) and 22.8% occupancy at 72 Loyang Way (from 9.9%)

Tellus Marine

- Defaulted at ESR-REIT (21B Senoko Way), consolidated to SBREIT (39 Senoko Way) with new annex block completed in November 2016

72 Loyang Way remains under-utilised

- Depleted security deposit, converted to multi-tenanted
- 30% waived for O&G tenant, but 70% anchor-tenant must comply

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Analysts

Paul Chew, Head of Research

Pei Sai Teng, Macro

Jeremy Ng, Technical Analysis

Jeremy Teong, Banking & Finance

Soh Lin Sin, Consumer | Healthcare

Richard Leow, Transport | REITs (Industrial)

Dehong Tan, REITs (Commercial, Retail, Healthcare) | Property

Peter Ng, Property | Infrastructure

Ho Kang Wei, US Equity

Chen Guangzhi, Oil and Gas | Energy

By Phillip Securities Research

Mohamed Amiruddin, Operations Exec