

AIMS APAC REIT

Headroom for growth



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SINGAPORE | REIT - INDUSTRIAL | NEW ISSUE VIEW (BONDS)

6 August 2020

- AIMS APAC REIT (AAREIT) new subordinated perpetual bond issue 5-year non-call with Initial Price Guidance at 5.75% area and reset based on 5-year SOR + initial spread. Issue size of S\$200mn, dividend stopper covenant, rank, for general corporate purposes.
- Demand for logistics and warehouse properties fuel AAREIT's resilience in the difficult economic climate, attributed to AAREIT's focus on quality business park spaces and modern ramp up facilities, as well as strong leasing structure. With ample debt headroom and undrawn credit facilities, focus will be developing unutilised GFA.
- The new perpetual is priced generously with a sub-senior yield pickup of 1.98% vs the senior AAREIT 3.6 Nov2024 (YTM 3.76%). AAREIT's TTM dividend yield was 7.5%.

COMPANY BACKGROUND

AIMS APAC REIT is a real estate investment trust listed on the Main Board of the SGX-ST on 2007. The Group owns a portfolio of 27 industrial properties, 25 in Singapore, 1 in Gold Coast, Queensland, Australia, and 1 business park in Macquarie Park, NSW, Australia. AAREIT is managed by AIMS APAC REIT Management Limited.

CREDIT VIEW

- Stable performance amidst COVID-19.** 1Q21 gross revenue fell S\$1.0mn qoq to S\$27.2mn, dragged by S\$2.6mn provisions made for rental waivers to SME tenants and expiry of master lease at 541 Yishun Industrial Park A. NPI declined S\$1.9mn qoq to S\$18.6mn from lower revenue and higher operating expenses. Stable results were driven by strong occupancy rates despite negative rental reversions for the quarter.
- Strong cash flow visibility from above-sector occupancies and master leases.** Healthy demand for logistics and warehouse property drove occupancy up 4.2% qoq to 93.6% (compared to Singapore industrial average of 89.2%) from take up in 20 Gul Way and 27 Penjuru Lane. This was offset by a master lease expiry at 541 Yishun Industrial Park A. Logistics and warehouse made up 46.4% of GRI in 1Q21. With 16.2% of leases expiring in FY21, we expect demand for industrial space as well as the group's master leases (30.3% of 1Q21 GRI) with built-in rental escalations to support occupancy and rental rates.
- Room for organic growth.** Aggregate leverage ratio of 35.4% significantly lower than MAS leverage limit of 50%, providing debt headroom of S\$231mn (holding assets constant), with undrawn credit facilities of S\$183.8mn. All FY21 debt was successfully refinanced. AAREIT's strong liquidity profile with no refinancing needs until Nov 2021 allows it to focus on the 502,707 sqft of unutilised GFA for organic growth opportunities.

As the first perpetual bond issued by a REIT since the pandemic, we think the new perpetual is priced attractively within a sector proving relatively resilient amidst COVID-19. Safety concerns are buffered by the group's healthy liquidity profile and debt headroom while it explores organic growth.

Risks:

- Rising Interest rates.** Higher interest rates increase cost of debt and diminish interest coverage and NPI. However, this risk is mitigated by 81.1% of AAREIT's debt hedged at fixed rates.
- Demand may be offset by a softer economy.** While industrial space remains resilient during COVID-19, occupancy and rental reversions may be affected by poorer economic outlook.

COMPANY DATA

BLOOMBERG CODE	AAREIT SP
MARKET CAP (SGD mn)	855.0
EXCHANGE	SGX

OUTSTANDING BONDS

	Size (mn)	Ask Px	YTM
Ticker: AAREIT Corp (SGD)			
3.6% 22Mar2022	50	No Quote	No Quote
3.6% 12Nov2024	100	99.35	3.76%

Indicative prices, Source: Bloomberg

MAJOR SHAREHOLDERS

ESR Cayman Ltd	12.32%
Dragon Pacific Assets Ltd	8.91%
George Wang	8.01%
AIMS AMP Capital Industrial REIT Mgmt	7.07%

KEY FINANCIALS

Y/E Mar, SGD mn	FY18	FY19	FY20	1Q21
Revenue	116.9	118.1	118.9	27.2
EBITDA	67.2	68.9	78.7	16.3
Net Income	61.2	50.0	85.5	10.1
EBITDA Margin (%)	57.4	58.4	66.2	59.7
EBITDA Int. Cover (X)	3.46	3.69	3.12	2.44
Debt/EBITDA (X)	7.34	7.21	8.00	7.40
Debt/Assets (X)	0.33	0.34	0.38	0.39
Net Debt/Assets (X)	0.35	0.36	0.41	0.42
Cash/ST borrowings (X)	0.09	0.23	0.13	0.12

Source: Company, Bloomberg, PSR

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Financials

Income Statement

Y/E Mar, SGD mn	FY18	FY19	FY20	1Q21
Revenue	116.9	118.1	118.9	27.2
EBITDA	67.2	68.9	78.7	16.3
EBIT	67.2	68.9	78.7	16.3
Interest expense (incl perps)	(19.4)	(18.7)	(25.2)	(6.7)
Profit before tax	62.6	52.8	93.1	12.0
Net income	61.2	50.0	85.5	10.1
EBITDA margin (%)	57.4%	58.4%	66.2%	59.7%
EBIT margin (%)	57.4%	58.4%	66.2%	59.7%
Net margin (%)	52.3%	42.4%	71.9%	37.2%

Credit Ratios

Y/E Mar	FY18	FY19	FY20	1Q21
EBITDA Int. Coverage (X)	3.5	3.7	3.1	2.4
EBIT Int. Coverage (X)	3.5	3.7	3.1	2.4
Debt/EBITDA (X)	7.3	7.2	8.0	7.4
Debt/EBIT (X)	7.3	7.2	8.0	8.1
Debt/Equity (%)	52.5%	53.6%	65.9%	68.6%
Debt/Assets (%)	33.4%	33.5%	38.2%	39.1%
Net debt/Assets (%)	35.3%	36.3%	40.8%	41.9%
Cash/Short-term debt (%)	9.3%	22.6%	12.6%	12.0%

Balance Sheet

Y/E Mar, SGD mn	FY18	FY19	FY20	1Q21
Cash and cash equivalents	17.6	18.1	20.4	20.1
Receivables	10.1	9.5	8.9	8.7
Investment properties	1,210.1	1,202.3	1,366.8	1,379.8
Total assets	1,477.6	1,484.8	1,648.9	1,687.3
Short-term debt	188.2	80.0	162.1	167.6
Long-term debt	305.0	417.5	467.1	491.4
Perpetuals	0.0	0.0	0.0	0.0
Total liabilities (adj for perps)	538.7	556.3	694.0	726.6
Net debt (adj for perps)	521.1	538.3	673.5	706.5
Shareholder Equity (adj for perps)	939.0	928.5	955.0	960.7

Asset Loss Threshold (Debt Constant)

SGD mn	1Q21	-10%	-20%	-22%
Total assets	1687.3	1518.6	1349.8	1318.0
Total borrowings	659.0	659.0	659.0	659.0
Debt/Assets	39.1%	43.4%	48.8%	50.0%

Cash Flow Statement

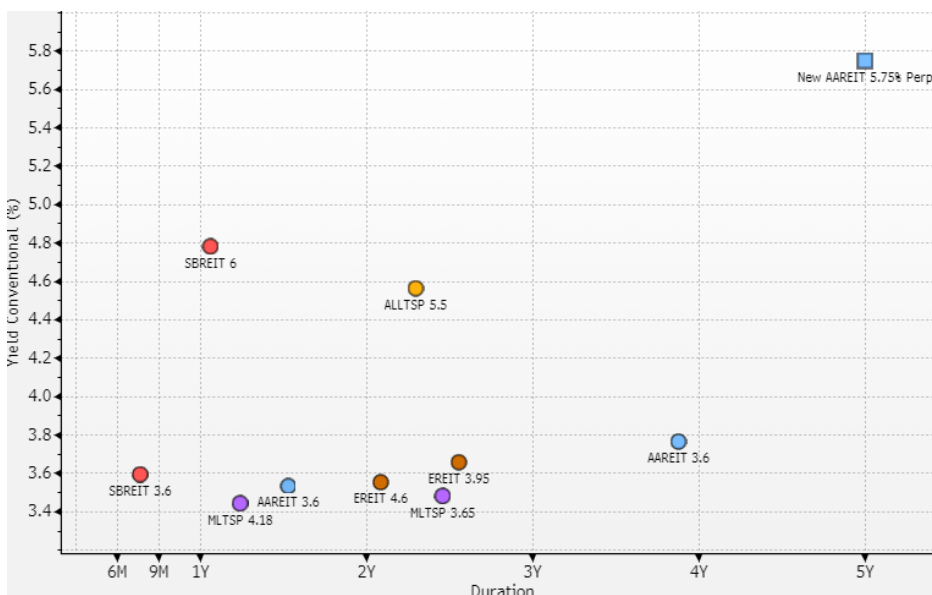
Y/E Mar, SGD mn	FY18	FY19	FY20	1Q21
Cashflow from operations	73.3	72.4	82.4	18.6
Net CAPEX	(25.2)	(14.3)	(65.2)	(1.4)
Dividends	(68.0)	(63.8)	(53.2)	(14.3)
Free cashflow to firm	48.2	58.1	17.2	17.3

Debt Headroom (Asset Constant)

SGD mn	1Q21	10%	20%	28%
Total assets	1687	1687	1687	1687
Total borrowings	659	725	791	844
Debt/Assets	39.1%	43.0%	46.9%	50.0%
Debt headroom	66	132	185	

Source: Company, Phillip Securities Research (Singapore)

Figure 1: New AAREIT IPG 5.75% NC5 perpetual attractive vs senior AAREIT 3.6% Nov2024 with sub-senior yield pickup of 1.98%.



Source: Bloomberg

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