TRANSCRIPT

Ascendas Reit's 4Q and Full Year FY16/17 Results Analyst and Media Briefing

Venue & Date: Aperia - Edelweiss Room
25 April 2017, 5.30 pm

On the Panel: **Mr Chia Nam Toon, Executive Director and CEO**
Ms Yeow Kit Peng, Head, Capital Markets & Corporate Development
Ms Koo Lee Sze, Chief Financial Officer

Mr Derek Tan, DBS Group Research: Hi good evening. Following on to Kit Peng's comment on hoping for a better future. So are we seeing a pick-up in leasing demand in Singapore among your properties?

Mr Chia Nam Toon: That has been the question asked even before the meeting started. Generally whilst we hear all the readings around the world saying that things are picking up, I have mentioned several times that we haven't quite seen the pick up so quickly yet. The good news is that there is a down drift in terms of the pre-terminations or slowdown of those who seems to be ailing. But in terms of pick up, I think there is still a lot of caution in terms of expansion. The areas that we do see pick up at the moment is actually around the larger MNCs, those who have got concrete plans are the ones that are actually still working on growing. But in so far as the medium and smaller outfits, we are still not seeing such a strong up take yet.

Mr Derek Tan, DBS Group Research: Just to follow on your comment, if we look at the business park space, I think it's been said that there is no supply and while you have a bit of vacancy in your portfolio, do you think that we will start to see vacancy compressed in the next probably, one year or so?

Mr Chia Nam Toon: I think we have a bit of vacancy in the international business park, some of them were vacated by the oil and gas sector about 18 months ago. We are trying to fill them up. I think the better spaces are gradually being taken up.

Mr David Lum, Daiwa Capital Markets Singapore: Hi, with regard to your divestments in China, was that something you had in mind when you took over as CEO, or was it just an opportunity that came up.

Mr Chia Nam Toon: I won't take all the credit for that. The thinking started even before I joined. We have taken quite a long time to acquire the three properties in China. Hence, it warranted us to take a hard look at whether we should keep the three properties especially when the offer prices were quite attractive at around the 5% handle in terms of cap rates. So we took the opportunity to recycle capital, and I think we were quite happy with the prices that we got.

If we do re-enter again, we will preferably try to re-enter with a larger portfolio. .

Mr Vijay Natarajan, RHB Research Institute: Hi, just a few questions. Firstly, on the rental reversion. There is a rental decline of about 18.8% in the logistics segment in 4Q. Is this related to any specific property, and second, how do you see the market in terms of acquisitions and divestments? Is this the right time for acquisition in the market considering the demand. Do you still see that there are some opportunities in the market?

Mr Chia Nam Toon: As we all know, the logistics market is heavily over-supplied in the last nine months and going forward, even the next one year. So as a consequence of that, there are a lot of new spaces coming on stream. There has definitely been a lot of pressure on the rental rates in the logistics sector. That's not surprising. I think that is quite expected.

There are still acquisition opportunities out there. Somebody asked me earlier whether we will look at only Australia or will we look at Singapore as well. In Singapore, you will see from time to time that acquisitions can present itself in a way that may not be available to others. With our large portfolio, there could be adjacencies of land at areas where we already have land parcels. By putting them together, we may have the opportunity to do a much more feasible project with a larger GFA. The consolidation of those land parcels is quite useful for us.

In Australia, the cap rates have compressed quite a fair bit but we would like to grow the portfolio a bit more. That means we still have to look much harder. Just last year alone, we looked at about six billion dollars' worth of transactions, of which we put in a bid for about a billion dollars' worth and we only managed to acquire less than two hundred million. That is the level of rigour and details we go through. We would like to see the Australian portfolio grow a bit more. As I mentioned many times, with a larger scale, you attract better people. So that is a priority for us.

We constantly look at the possibility for divestment. If the assets come to a time where we think that it's right for us to divest, if the price is right, we will do so. If it doesn't fit the portfolio, we will also recycle the capital as well. Where we think that there are still a lot of opportunities, we will spend money on AEI to upgrade those assets. One of the fundamental things we have to do, as asset managers, is to make sure that we maximise the value of the assets that we own.

Mr Andy Wong, OCBC Investment Research: In terms of your rental reversion, you mentioned that you expect it to be subdued. Can you quantify that? Are you trying to say that in some of the quarters, there is a possibility that overall weighted average will actually be negative? And for the tenant that terminated in Sydney, the new tenant that you got in, how does the rent compare to the rent of the tenant that left?

Mr Chia Nam Toon: The reason why we say subdued is because there will still be about 2.4 million square meters of industrial property space coming on-stream in the next 12 months. As a consequence to that, we expect some sectors, particularly the logistics sector and even some of the light industrial, to still see rental pressure. Some of the assets are leasing well, so you will see some positive rental reversion there, but overall, you see that it's quite subdued. Hopefully we will stay no worse than a flat rental reversion on average. We hope that if there is an up-tick in the economic conditions in Singapore, we will see better rental reversions.

If you are familiar with the Australian market, a lot of the leases have a build-in rental escalation of about 3% or 3.5% p.a.. When there are new leases, you will find some softness in rental reversion in some cities, for example, Melbourne or even some parts of Brisbane. But in the stronger markets like New South Wales, you should see a more stable sort of reversion. All these are already expected and we have built it in from the onset.

Mr Wilson Ng, Morgan Stanley: Hi, just two questions. First, you mentioned acquisitions earlier, so just to clarify if you are looking at the markets outside of Australia and Singapore. If so, which markets? And the second question is on China. You have divested all the properties already, but in terms of money that is left to be repatriated or income support, are there still any that is coming through for next few quarters that will affect distribution?

Mr Chia Nam Toon: All the money from China has been repatriated. We have never distributed capital from divestments in the past and we don’t intend to start for the time being. We have actually ploughed back those monies to pay down debt, so that’s why you see the debt headroom has gone back up.

On our investment overseas, we tend to be very focused. We have one or two persons, specifically looking at overseas markets (outside Singapore and Australia) but unless it is very compelling, with a large portfolio size and fairly concentrated, it will be unlikely that we will go abroad just for the going abroad sake. There have been many instances where there have been large portfolios in Europe for example, but they are quite distributed across the continent. That’s not something we will look at because we are not just fund managers but we are also asset managers. If you are going to be asset managing these assets, especially when they are distributed, it’s rather difficult.

In the case of Australia, we have said that we will stay there, expand it and look at only three cities, if possible. Likewise, if say we are going to say Europe, for example, it has to be fairly concentrated, for example a portfolio in the UK. But if say, the portfolio is sporadically distributed in Europe/UK, then it’s unlikely that we will look at. We are very hands-on asset managers in managing the properties within our portfolio..

Mr Yeo Zhi Bin, CIMB Securities: Hi Mr Chia. Just a question on gearing. Given that it is now 34%, how should we think about it? Would you allow it to drift upwards in the interim as you look for acquisition opportunities in Australia?

Mr Chia Nam Toon: I never felt that gearing is an issue for us. We always have had good access to the capital markets. I think the more important question is that the headroom actually provides us with the ample opportunity. When the opportunity arises, we do need the buying power to do so. You will typically see gearing range between low 30s to high 30s.

When we look at raising capital, it will be based on what tools is best used at appropriate times. Typically, most people will use borrowings alone, so that it can boost earnings. If you look at all our acquisitions, we have always reported on a 60:40 basis, in terms of equity and debt. We have always maintained that consistency.

Mr Krishna Guha, Jefferies Singapore: Hi, couple of questions. You earlier mentioned the possibilities of the development of land parcel. Will this development be done under Ascendas Reit or will it be under a JV arrangement with your sponsor? The second question is on your strength of people in Australia, both from acquisition perspective and from asset management perspective. Are you managing out of Singapore or are you having a pool of people in Australia itself?

Mr Chia Nam Toon: On the development front, we will use a combination of opportunities. We have the skillsets to do straight forward developments. If the land parcel belongs to us, we can manage it ourselves quite easily.

Where it entails a fairly large and complex redevelopment opportunity, for example the Science Park redevelopment, requiring a lot of work with the regulators for approvals, and where the land parcel sits on both Ascendas Reit's and Ascendas-Singbridge's books, we may have to look at different models to tackle those issues.

Whichever model we deploy, we take into consideration that unitholder's interests are protected. More importantly, we use the strength within the Group to undertake those developments so that we get the maximum benefit we want. We don't want two parties coming together and then traipse over each other. It's best to use the expertise we have within each of those entities to improve the speed of development. We will employ the type of model that we think will be appropriate for that sort of parcel redevelopment.

In terms of the manpower in Australia, you cannot run the Australia operations out of Singapore, so we have to build up a local team. I am sure some of you may have read that we lost our General Manager but we are in the midst of re-hiring somebody. At the same time, we have also added numbers to the Australian office, augmented by Singaporeans who have gone there temporarily to shore up the operations there.

Ms Joy Wang, Deutsche Bank: Just a couple of questions. One on Australia, are there any thoughts about acquiring a team along with the portfolio and maybe even including development capabilities. And when would you be comfortable to take on development in Australia. Two, just on the line of M&A, I know in the past Ascendas Reit has said no to Singapore M&A or very unlikely. Has that thought been changed? And lastly, just a technical kind of clarification on rental reversion. For Australia, do you look at the preceding year, for your rental reversion or is it average of the rent through the lease period?

Ms Yeow Kit Peng: On the rent reversion methodology, it is similar to what we do in Singapore. We will compare the average rent for the new lease period to the average rent for the preceding lease period.

Mr Chia Nam Toon: We would definitely consider acquiring a platform together with a team with good skillsets. If you look at the six billion dollars' worth of opportunities last year, some of them included platform deals. In fact, the one unfortunate truth is that platform deals are not always attractive, hence the reason why they are being sold in the first place. The question is whether they are attractively priced. Everything has a price to it.

Number one, you have to look at whether the portfolio itself is attractive, and number two, if it is attractive in terms of price. We have looked at many and so far, we haven't found anything that makes sense for us.

That applies similarly to Singapore. We won't say no to a Singapore M&A. Since I came on board, we have looked at quite a few. First and foremost if the portfolio is good or at least decent, then we start looking at it. Secondly, we must buy at the right price. We are still very much a value investor. We need to pay a price that is lower than the intrinsic value.

In terms of development, we have somebody within our Australian team who is a seasoned development manager. In the first year, we are trying to move progressively. We can't jump from point A to point D. What we have done is to progressively solidify the processes, making sure that our agency arrangements are in place, the property management is all in place and the right people are in place. Then, we can start looking at opportunities in terms of land parcels for us to acquire, where to acquire and how big. We do things in a rather systematic way. We are not private equity. We are a long-term REIT, so we have to progress in the manner that reflects the way we think.

By the way, even within Australia, the Group is looking at expanding, so we could have the Group help us with developments as well.

Mr Nicholas Teh, Credit Suisse: Just have a couple of questions. The first one, a few quarters ago you mentioned that you were working quite closely with JTC around regulations on the anchor tenants and so on. Just want to know if there has been any progress on that to give you a bit more confidence in bringing occupancy up going forward. And the other question was just on the logistics sector where you saw the negative 18% reversion. Any unique reason why it was so large? Can we expect that quantum of rental reversion going forward in some quarters?

Mr Chia Nam Toon: I will let Kit Peng give you a bit of flavour on the rental reversion but let me come back to JTC regulations first. We have been working quite closely with the regulators. They have been quite kind, in the sense that, in a down market they're generally a little bit more lenient. We have a few properties where we have been able to explain why we have fallen into a trap because they had retrospectively put in regulations which affected some of our properties. They have looked at it and have given us some dispensation. It's not blanket dispensation as they will still look at properties on a case-by-case basis.

Maybe, Kit Peng you want to cover the rental reversion.

Ms Yeow Kit Peng: From the logistics team, we are seeing very strong competition. Some logistics players are moving into their own newly-completed facilities. In order to attract tenants, we have to be competitive in the pricing. We have been able to consolidate some new tenants into our space because we have the available space.

Mr Chia Nam Toon: In fact if you look at the rental ranges over years for the logistics space, it ranges between 80 cents up to maybe S$1.50. The range is quite wide because of its absolute value being very low. You are talking about big sweeps, but that's the nature of the lease.

Any other last questions? If not, thank you very much for coming. We hope we have covered the grounds for you and given you enough ammunition to write your report. And if there are any more questions, you can always call us. Thank you very much.

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