TRANSCRIPT
A-REIT FY15/16 RESULTS MEDIA & ANALYST BRIEFING

Venue: Aperia - Edelweiss Room
5 May 2016, 5.45 pm

Ms Yeow Kit Peng, Head, Capital Markets & Corporate Development: I will now conclude my presentation. Please feel free to raise any questions. The Q&A session will be chaired by our new CEO, Mr Chia Nam Toon.

Mr Chia Nam Toon, Executive Director and CEO of the Manager of A-REIT: Thank you Kit Peng. As this is my first session, I shall start by introducing myself and sharing a little on my background.

I have been with Ascendas for 11 years now. I was previously the Group CFO and also cover corporate services. As part of the senior leadership team, I have covered quite a number of the investment issues that we faced in the group. I have been following the A-REIT progress for quite a few years, hence, I am not totally unfamiliar with the A-REIT Group.

Before joining Ascendas, I was with a large multi-national called ICI. It's part of the Akzo Nobel Group now.

The other thing that's worth noting is that for those who are keen investors, I am also a value investor, so I hope to maintain our discipline value approach to investing in A-REIT as well.

You will notice that we have a Caucasian colleague here. Matthew Meredith is the General Manager of Australia. He looks after our Australian properties, so we have already appointed a Head to oversee Australia.

So, shall we have the first question please?

Participant A: Hi, can you talk about the Australia portfolio. I am trying to understand the valuation write down. It seems that the weighted average cap rate is 6.58% and you bought the asset, the portfolio at 6% NPI.

Mr Chia Nam Toon: Good question. In our practice, we typically would capitalise our acquisition costs when we make the acquisition. In addition to that, in Australia’s case the stamp duties are higher than what we typically face in Singapore. We pay about 3 plus percent here but about five plus percent in Australia. Secondly, we bought a fairly large platform, so we paid an acquisition premium. On a good note, the valuations have all gone up, although as a whole it is not able to cover the acquisition premium and the capitalized costs. Hence the write down. Rest of the portfolio has performed reasonably.

Participant B: Hello Nam Toon, following up on the previous question. If you were to strip out the transaction costs, how much has portfolio gone up by? And what sort of cap rate is being applied? Are we seeing a cap rate compression in Australia?

Mr Chia Nam Toon: I don't think there is a compression in cap rate. We used a different valuer from the one we previously used during the acquisition. The valuation for all properties have gone up by about $20 million.

Participant B: Maybe we can talk a bit about Australia. Can you update us on the lease details i.e. what type of rental reversions are we looking at?

Mr Chia Nam Toon: The rentals are still holding fast, we don't see the rentals softening yet. We do not have a lot of empty space other than the vacancies that we mentioned earlier, we are working hard at leasing out these spaces. In fact, as we speak, we have quite a few enquires already. Matthew, do you have anything to add?

Matthew Meredith, GM of Australia: The tenure demand is actually quite strong across all three states, but probably at the moment, we have quite a bit of demand in Brisbane.

Ms Yeow Kit Peng: If I may add, the rents that we are in discussion on are quite close to the passing rent.

Participant C: Good afternoon. This financial year that just passed, you made one and a half billion worth of acquisitions. Any idea how much it will be for this year? Are there any sort of target, and I assume that most of those acquisitions will be in Singapore?

Mr Chia Nam Toon: I don't know whether my predecessor has mentioned this, but we don't have specific target-. We typically look at the opportunity that presents itself. We will constantly comb the market, we are looking at Singapore and Australia. When it comes, we will take a look at it, and if there are more to be acquired, we acquire. And if there's none, we may not make any acquisitions for the entire year. But so far, our records here have been that we have a few acquisitions each year.

The other thing to note is that we have pipeline from the parent as well. I believe in the last presentation, we mentioned that there is close to a billion dollars' worth of assets in the group and we are looking to acquire some from the group maybe this year or next. But I can't tell you specifically the quantum of acquisitions that we will make this year.

Participant C: Do the opportunities look better this time around or versus one year ago?

Mr Chia Nam Toon: In terms of acquisitions?

Participant C: Yes.

Mr Chia Nam Toon: The pipeline is still there. We are still looking and working hard. In fact, even as we speak, in the last few weeks, I think we have seen no less than at least 30 or 40 prospects. So the pipeline is there, but we don't necessary go after each and every one of them.

Participant D: Good evening, I am curious about your Australia exposure. If you rank the cities that you are in, which ones do you think would have the most robust tenant prospects or reversions, or do you reckon that there could be risks that we should be taking note of.

My second question is on the ECS. From what I understand, I thought they couldn't convert anymore or I may have remembered wrongly. Could you please remind us on that?

Mr Chia Nam Toon: We will start off with Australia. We like all the locations that we have in the portfolio. We like Sydney, Brisbaneand Melbourne, in that order.

We will continue to add to it when we see the opportunity because even though the clustering is good, there are still pockets of assets that we would like to add to, both in terms of geographic locations but also in terms of the sizes that we are looking at because we need to complement sizes. Obviously in Australia, we have got good foothold there. Recently, the Ascendas-Singbridge Group has acquired 100 Arthur Street, north of Sydney, a CBD asset. So since we have sufficient presence within the group i.e. about $2 billion worth of assets, including the hotel assets, we will be looking to add to it provided that there are good values to be had.

The second question you asked is about ECS. The ECS conversion is just beginning. They are in the money, so you have that $14 million have been asked for conversion and we will start seeing some trigger over this period.

Feb 2017 is the last maturity date in which ECS investors can exercise their options.

Participant E: Hi, Nam Toon, on your outlook for rent reversion which was 7% last year, how will it look like this year? And in terms of your vacancies of 12%, do you think that it will improve as we approach the end of the financial year?

Mr Chia Nam Toon: We like to believe so. First on the rental reversion, 7% you saw this year and if you look at the slides again for the last quarter, we are looking at about 5% and JTC has just released some numbers. We are seeing a bit more flattish reversion, but that said, because our passing rents are still slightly lower. We will still hopefully see some positive revision for us. But definitely it's starting to be flattened out because of the headwinds we mentioned. So we don't expect to see as much as 5% or 7% anymore. So we expect to see a more moderate number.

Participant E: Maybe medium or longer term, do you have a target? And in terms of scale and size for the REIT, what would you like to achieve over a particular time?

Mr Chia Nam Toon: We currently don't have a specific target in terms of size. We look at it opportunistically, if there are good assets, we will take a look at it. But there are no specific targets. We will buy based on a discipline approach and if there are no good value to be had, we don't buy anything.

On your question about vacancies, we continue to drive hard at trying to fill those assets out. We are quite positive that we will fill those out. If we can fill up any additional of the vacancies we have today, we will start to see some positive DPU additions because our DPU is much stronger than last year. So hopefully, if we fill those out, reduce the vacancies, we will then see better results as well.

Participant F: Hi, on your financing side, at 37% if you do well under million dollar accretion what kind of mix will you go for? And second question is, you have done these MTNs which average slightly longer dated, five year, ten year. On the discussion side, this decrease in the rental reversion, over the longer term does it feature in the discussion for the MTN issuance and has the spread gone up for the pricing of the MTN?

Mr Chia Nam Toon: I don't quite get your second question.

Participant F: My second question basically, given that the MTNs are longer dated, five year, ten year, is there any discussion that, what kind of rental reversion will be there over a longer dated period or people are just taking whatever curve is right now and pressing off it?

Mr Chia Nam Toon: I think the financing of about whether it is five years or ten years, and the rental reversion are not necessarily related. The way we do funding, typically, we are in the long term business. We try to fund as long as we can, depending on the sweet spot. We do look at the pricing in the market for the yield curves at each stage, we want to see where we can get the right balance. In terms of funding for acquisitions, we typically look at the basis of 60-40, equity versus debt, and depending on how much gearing we have at any one time, we can decide to have more flexibility on the component that we do. But as far as investment is concerned, we typically look at it on a 60-40 basis.

So, in so far as borrowing is concerned, we recently capitalised on a five-year paper. I think we will also consider seven years as well depending on the yield curve. If the yield curve flattens out, we will capitalise longer.

Participant F: The rates have not expanded?

Mr Chia Nam Toon: The rates has been quite good actually, if you look at the last MTN when we priced at 2.65%, I think that will be the lowest rate you will see all time actually, for that particular tenure.

Participant F: I saw that there's a 44% increase in valuation in your China property and that was a bit out of ballpark. Can you give some colour on this? And there is this freehold land in Australia, so when you capitalise your acquisition cost, what time period do you amortise this acquisition cost over? Is it like 20 years, 10 years? What kind of timeframe?

Mr Chia Nam Toon: I'll answer the second question first. We capitalise it but we don't necessarily amortise it. What we typically do is we fair value the assets. You can see there's a write down this time around. It will fluctuate at the valuation that we get end of each year. So, it will move according to that.

The first question was?

Participant F: China valuation.

Mr Chia Nam Toon: Yes the China revaluation, the main increase came from our Z-link project in Beijing. That's very well leased out. 100% occupied and the rental rates there are fairly robust, very sought after location.

Participant F: Thank you.

Mr Chia Nam Toon: Any last questions?

Participant G: Hi Nam Toon, just a couple of questions on Australia. Can you give a bit more colour on the 6% and the 7% of leases in Australia that's coming up for conversion in this and next financial year? And what's the rough impact to NPI if they eventually converted into MTB? And the other question is, can you give us a sense of the leasing demand in 162 Australis Drive and 62 Stradbroke Street. It seems that it has been six months since you acquired these two assets but the leasing occupancy has been quite stagnant. Is there a problem with the location or other reasons?

Mr Chia Nam Toon: The first one is Stradbroke in Brisbane, we have had quite a few enquiries. Two or three prospects are quite serious about taking up the space. The negotiation takes a long time because it depends on the demands of the potential leasee and what they can get from the negotiation. Once these are confirmed, they will then lock in the space. And in fact, Matthew just told me this morning that we got more than one enquiry on that particular space. For the other vacant space, we are exploring the possibility of getting an existing tenant to expand. So we hope that that will be leased out as well.

On other assets coming due, in fact that was already pre-empted. We are already looking at some temporary fill whilst we work on negotiating longer term leases. So we are quite confident we will fill them up.

Participant H: Hi. I am looking at your business in Science Park, the increase in renewal rates is quite high, about 10%. But the market for those properties in Singapore as per JTC is actually quite close to 20% vacancy. Can you just give us a little more colour as to how the REIT actually manages to get such high rental revisions? Was it because last year it was at a pretty low rate, it started at a low base?

Mr Chia Nam Toon: I think the JTC report needs to be looked at selectively as well because first and foremost, we have different business parks as well. If you look at our Science Park properties, the reversions there tends to be stronger. If you look at our International Business Park space, that would be a bit weaker. So that depends on the space that you looking at. Overall this year, the reversions are much better than our passing rentals. That's why you see stronger rental rates that depends on what comes down and I think in our International Business Park, you do see some softness because they are mainly leased to the oil and gas industry.

On the Science Park space, we have no problem leasing them out. We also put in AEIs, we hope to get better rentals as well.

Participant I: Hi, just a couple of questions from me. To follow up on Australia, you mentioned 7% that is due for renewal this year. Can you give us some colour on how many percent have already indicated that they are not renewing? And as for the 12.5% vacancy in the portfolio, we have seen that number for quite some quarters now, so how much of this you think is structurally just not leasable at this point in time.

Mr Chia Nam Toon: Just to give you a bit of colour, out of the 12%, we had one SLB that came back to us last year. It came to an end of expiry after 12 years, and that particular space is about 20,000+ sqm. Leasing up that space will take time because we are redeveloping that particular asset. So you will see that the number may stay flat but there is flux in terms of what goes in and goes out of that particular number. We are looking at some redevelopment, we are looking at some repositioning, so that number itself doesn't tell the whole story.

In terms of Australia, only one non-renewal, that we anticipated from the day we made that acquisition and I think I mentioned that earlier, it's a the logistics space that we are now filling it up temporarily until we sign on something more permanent.

Participant J: Hi Nam Toon, two questions. First is on your preferred region in terms of acquisition. Is there a preference for more mature market over emerging? And how does China fit into this picture given that you have some exposure there. Second is on the assessing attractiveness of the acquisitions. Is there a certain step that you take in assessing how attractive an acquisition is, certain numbers that you look at, or i.e. if there's any opportunities that arise, are you prepared to pay a premium still for the platform and do the same thing for the potential write downs just like for Australia. Thanks.

Mr Chia Nam Toon: . In terms of the Australian acquisition, we mentioned earlier we have bought the platform, we like the platform, the platform is a large enough one for us to make a go at it. Going into a new territory, there is one thing that we need to be mindful of. In our business, we do need to build presence. We do need to have a team on the ground. Without sufficient scale, you are not going to be able to engage the best people and build a sufficient team by putting in the best bosses available. So we have now done that with Australia. Anything that we add to it now must complement the current platform we have. So as I said earlier, we are going to look at pockets of spaces in geography that we are going to fill, in the cluster. And we are going to look at sizes of assets that we need to complement.

Now, in terms of diversification, we might add on other segments as well. Business space is definitely one of the space that we are strong in so we will continue to look at those. So that's how we look at acquisition for Australia. Even in Singapore, if you look at our clusters for the different type of asset classes, we also look at filling the pockets, making sure that we complement the assets that we already have.

Definitely the first thing that we look for is location. Nothing beats location. So we have to find assets that are well located. Second thing of course, we look at the product quality. If we purchase something that is already completed, we make sure that they are usable. Sometimes you buy, say a, SLB asset, if you don't have long tenure, it's fairly short, and if it's not general purpose use, very specific, you are going to find it difficult to lease out later on. So we will look at the quality as well. Aside from that, of course, it's all the financial aspects that goes with acquisition.

In terms of region, we will definitely focus more on the existing region that we are in. So, you will see us looking at Singapore, Australia, China even. Whether we go into another mature market or not, it will be a very similar approach to Australia unless we can get a large enough platform we are not going to go start opening up another front. We are going to focus more on what we have at the moment - build the teams up. Matthew is already bringing in new colleagues. We will put some of our existing people there as well, put in the system, put in the processes, make sure that we get into a robust state, build up the scale. Scale does matter in this business because you can defray costs, you have economies, so we will focus primarily on those things.

Participant K: I have another question. As an investor, how should we think about A-REIT in the next three years in terms of geography? Previously you guys were looking at Germany, is that totally off the table? And in terms of operationally, is there something that you would see a change as in, do you see assets that are not ideal that you want to divest? And for the Australia cap rates, can you give it by region? Perth, Sydney etc. Thanks.

Mr Chia Nam Toon: A-REIT consistently adopts a discipline value approach of buying things. We look at optimising our portfolio making sure that we move things around. If it has to be repositioned, we do so. If it needs to be disposed of, we also recycle capital. I think my predecessor also mentioned that we will also collaborate more with our parent group who has a fairly sizeable pipeline of assets that can be looked at.

Probably what has not yet been mentioned is that the Ascendas-Singbridge Group is seriously looking at Science Park rejuvenation. It is a fairly large track of assets - both Park one and two. And the government is currently looking at trying to intensify usage. So we are working closely with the Group to see how we can reposition Science Park. That would in itself present us with a lot of opportunities over the next few years, something that we would have to explore how we can exploit together with the group. We can't do it ourselves because we are a REIT, so we may have to work in tandem with redeveloping that assets. So that's something that is going to add up to quite a fair bit over the next few years if we get a chance to redevelop the whole place.

Now the second question?

Participant K: Germany.

Mr Chia Nam Toon: As I said earlier, unless we have got an opportunity to acquire a large platform it is unlikely for us to just suddenly go into Germany. For the time being, we have already made some progress in Australia. We are going to have to focus on making sure that we can grow that asset quickly over time. And you would want us to focus as well. I am fairly confident that focus is the answer to making sure we are successful there.

And you were asking Cap rates Australia by region. The way we see it as it stands or the valuations we looking at?

Participant K: Valuations.

Mr Chia Nam Toon: I will just read it off to you. I have it here - New South Wales is 6.3%, Victoria 6.8%, Queensland 6.7% and Western Australia 7.3%. Those are the cap rates that's been given by our valuers.

Ok, maybe one last question.

Participant L: In terms of tenant demand across your Singapore portfolio right now, where do you see pockets of demand, like from which industries?

Mr Chia Nam Toon: So far, based on what we see over the last quarter, other than oil and gas, we see demand quite well spread out actually. It is not in any one specific sector. I think if there is any softness that we are concerned about, it's probably in the logistics space because there is a slight over supply in that space so that's something that we will be watching closely. But in terms of all the others, we have quite a wide spread of clientele coming to us from a wide variety of industries. We don't want any specific one that's growing quick or slow. But definitely the oil and gas one is slowing down a little bit.

Ok is that enough for today? If yes, we should adjourn for dinner and then you can file your reports.

Thank you very much.

-END-