

Rating Action: Moody's changes Ascendas REIT's outlook to positive; affirms A3 issuer rating

14 May 2018

Singapore, May 14, 2018 -- Moody's Investors Service has changed Ascendas Real Estate Investment Trust's (A-REIT) rating outlook to positive from stable. Moody's has also affirmed A-REIT's 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.

RATINGS RATIONALE

"The change in outlook to positive reflects A-REIT's strengthened business profile given its larger scale and continuing geographical diversification, as well as the sustained improvement in its credit metrics following the implementation of debt reduction initiatives over the past two years," says Rachel Chua, a Moody's Assistant Vice President and Analyst.

Owing to A-REIT's enlarged portfolio, good quality assets and meaningful diversification into the matured Australian industrial property segment, Moody's believes the trust is better positioned to withstand the cyclicity inherent in real estate markets.

A-REIT's investment portfolio of 131 properties was valued at SGD10.1 billion at 31 March 2018, compared to SGD8.1 billion for 107 properties at 31 March 2015. At 31 March 2018, the trust's assets in Singapore contributed 85% of its portfolio valuation while its Australia assets made up the remaining 15%.

"Moreover, A-REIT's credit metrics have improved materially over the past two years. We expect its leverage will show modest improvement over the next 18-24 months," adds Chua, who is also Moody's Lead Analyst for A-REIT.

At 31 March 2018, A-REIT's adjusted net debt/EBITDA was 6.2x and adjusted debt/ total deposited assets was 36.5%, compared to 7.7x and 40% respectively at 31 March 2016.

Moody's calculations incorporate the standard adjustments for operating leases and also includes a 50% equity allocation assigned to A-REIT's perpetual securities.

A-REIT's leverage weakened significantly in FY2016 on the back of a \$1.1 billion debt-funded acquisition of Australia assets.

Nonetheless, the trust has since delivered on its commitment to reduce indebtedness through the divestment of its assets in China for SGD407 million, equity issuance of SGD155 million, subordinated perpetual securities issuance of SGD300 million and the conversion of SGD300 million of exchangeable collateralized securities into equity.

A-REIT's A3 ratings are underpinned by 1) its established market position as one of the largest industrial landlords in Singapore; 2) its diversified portfolio of high-quality industrial assets across Singapore and Australia; and 3) its operating track record of delivering stable earnings.

The ratings also recognize the trust's ability to access debt and equity capital markets, and its proactive approach towards capital management.

At the same time, A-REIT's ratings are constrained by its reliance on short-term revolving credit facilities, the softer operating environment in the Singapore industrial segments and its inherent exposure to liquidity risks that all Singapore REITs face given the high dividend payout requirements and minimal cash balances.

At 31 March 2018, A-REIT had cash and cash equivalents of SGD25 million compared with SGD617 million of short-term credit facilities maturing within the next 12 months. These revolving credit facilities are uncommitted, but have been in place over the past decade. The trust expects to roll forward these facilities as they come due.

The positive outlook reflects Moody's expectations that A-REIT will maintain its credit profile and prudent financial policies as it pursues portfolio growth over the next 12-18 months.

A-REIT's ratings could be upgraded if the trust continues to 1) exercise financial discipline while it continues with its portfolio expansion plan; 2) reduce reliance on short-term financing; 3) maintain stable occupancy and operating cash flows from its properties such that it sustains its current credit profile with net debt/ EBITDA improving towards 6.0x and adjusted debt/ total deposited assets towards 35%.

Given the positive ratings outlook, downgrade pressure is unlikely. However, A-REIT's ratings outlook could return to stable if 1) the operating environment deteriorates, leading to higher vacancy levels and declines in operating cash flows; or 2) its financial metrics weakens such that its adjusted net debt/EBITDA exceeds 6.5x, EBITDA interest cover falls below 3.5x and adjusted debt/ total deposited assets weakens from the current level.

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

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Listed on the Singapore Stock Exchange in November 2002, A-REIT is a Singapore-based business and industrial REIT. The trust has a diversified portfolio of 100 properties in Singapore and 31 properties in Australia with a total appraised value of SGD10.1 billion as of 31 March 2018.

A-REIT's sponsor is Ascendas-Singbridge Pte Ltd, which owned around 20% of the trust at 31 March 2018. Ascendas-Singbridge is 51% owned by Temasek Holdings (Private) Limited (Aaa stable), which is in turn wholly-owned by the Government of Singapore (Aaa stable). The remaining 49% stake is owned by JTC Corporation (JTC), a Singaporean government statutory body that develops and manages industrial estates in Singapore and provides facilities to enhance the operations of industries.

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