

Rating Action: Moody's affirms Ascendas REIT's A3 ratings; changes outlook to stable

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Singapore, February 26, 2019 -- Moody's Investors Service has affirmed Ascendas Real Estate Investment Trust's (REIT) 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.

Moody's has also revised Ascendas REIT's ratings outlook to stable from positive.

RATINGS RATIONALE

"Ascendas REIT's A3 issuer rating reflects its stable and resilient income generation from a large portfolio of high quality industrial and logistics assets, improved geographical diversification, with properties across three developed markets, as well as its strong financial profile," says Rachel Chua, a Moody's Assistant Vice President and Analyst.

The A3 rating also takes into account the trust's market position as one of the largest industrial landlords in Singapore, strong banking relationships and access to capital markets, and prudent financial policies.

"We expect Ascendas REIT's credit metrics will remain largely stable through 2020, with net debt/EBITDA of 6.5x-7.0x and adjusted debt/deposited assets of around 39%," adds Chua, who is also Moody's Lead Analyst for Ascendas REIT. "Such levels are consistent with the parameters of its A3 ratings."

The change in outlook to stable from positive reflects Moody's view that the potential for a ratings upgrade to A2 over the next 12-18 months is limited, because Moody's expects that the trust's financial metrics will not improve meaningfully from current levels, given its acquisitive growth strategy.

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

Ascendas REIT's investment portfolio of 171 properties was valued at SGD11.1 billion at 31 December 2018, with 79% of its assets in Singapore, 14% in Australia and 7% in the UK.

The trust has a track record of financial discipline and a proactive approach towards capital management. Moody's estimates around 80% of its SGD1.9 billion capital investments since FY2016 were funded with equity and divestment proceeds, and the remaining 20% with debt. In particular, it raised SGD452.1 million of equity proceeds in September 2018 to pre-fund investments in light of the rising interest rate environment.

At the same time, Ascendas REIT's A3 issuer rating is constrained by its reliance on short-term revolving credit facilities, the softer operating environment in the Singapore industrial segment, and its inherent exposure to liquidity risks that all Singapore REITs face given the high dividend payout requirements and minimal cash balances.

At 31 December 2018, Ascendas REIT had cash and cash equivalents of SGD33 million compared with SGD954 million of debt maturing within the next 12 months, the bulk of which are short-term revolving credit facilities. While these revolvers are uncommitted, many have been in place over the past decade. The trust expects to roll forward these facilities as they come due.

The stable outlook reflects Moody's expectation that Ascendas REIT will maintain its prudent operating and financial policy as it expands its portfolio.

Upward ratings pressure could evolve if Ascendas REIT continues to improve its geographic diversification, while strengthening its credit profile, such that adjusted debt/total deposited assets falls below 35% and adjusted net debt/EBITDA reduces below 6.0x on a sustained basis.

Ascendas REIT's ratings could face downward pressure if: (1) the operating environment deteriorates, leading to higher vacancy levels and declines in operating cash flow or falls in asset valuations, and/or (2) the trust's

financial metrics weaken on a sustained basis.

Specific credit metrics Moody's would consider include adjusted net debt/EBITDA exceeding 7.5x, EBITDA interest coverage falling below 3.5x-4.0x or adjusted debt/ total deposited assets weakening from current levels.

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

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018. 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, Ascendas Real Estate Investment Trust (REIT) is a Singapore-based business and industrial REIT. The trust has a diversified portfolio of 98 properties in Singapore, 35 in Australia and 38 in the UK, with a total appraised value of SGD11.1 billion as of 31 December 2018.

Ascendas REIT's sponsor is Ascendas-Singbridge Pte Ltd, which owned around 20% of the trust. As of 31 December 2018, Ascendas-Singbridge was 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 was owned by JTC Corporation (JTC), a Singapore statutory body that develops and manages industrial estates in the country and provides facilities to enhance the operations of industries.

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