

BUY

TP: SGD 1.63

▲ 17.5%

AIMS APAC REIT

AAREIT.SP

Diversifying further into Australia

AAREIT acquires the Boardriders APAC HQ, a 14,833sqm AUS Light Industrial asset, at A\$38.46m, with a headline yield of 7.8% and DPU accretion of ~+0.8%. While it is mildly accretive, we see this as a positive addition in tandem with their main strategy of revamping existing portfolio assets, as it improves portfolio diversification and income stability (3% pa escalation, 12-yr master lease). Maintain BUY, with revised TP S\$1.63/unit.

- ➔ **DPU accretive transaction:** The Boardriders APAC HQ is an AUS light industrial asset of 14,833sqm by NLA. It is acquired at the price of A\$38.46m (S\$36.92m, similar to independent valuation) and will incur an A\$3.04m (S\$2.92m) one-off transaction cost. The acquisition has a 7.8% headline yield, based on yr1 NPI. DPU accretion is ~+0.8% on a FY19 pro-forma basis, given an estimated interest cost of ~4% (A\$ debt) and recurring trust-related expenses and WHT taxes to add up to ~3% of property acquisition costs. The acquisition is guided to be fully funded by debt, and will bring gearing up to ~35.5% from ~33.7% in of FY19.
- ➔ **Asset provides diversification and stability to portfolio:** The acquisition enhances portfolio diversification in terms of geography (increases AUS assets' contribution from ~13.1% to 15.1%) as well as in terms of segments (increases Light Industrial contributions from 9.3% to 11.4%). We expect portfolio stability to improved, as the asset has a triple-net master lease (~ 100% NPI margin as the master tenant bears a significant portion of operating costs), and comes with a 3% pa rental escalation with mid-term rent review (at 3% or higher rental escalation revision). As a result, the master lease component increases from 34.1% to 35.7%. Portfolio WALE increases from 2.59yrs to 2.76yrs due to the asset's 12-yr master lease.
- ➔ **Maintain BUY:** We see this acquisition as a positive addition alongside AAREIT's main strategy for growth through AEI and redevelopment of existing portfolio of assets. Maintain BUY, with revised TP S\$1.63/unit, after factoring in the acquisition. AAREIT is currently trading at 1.0x P/B and 7.7% FY20E yield.

Financial highlights

Y/E 31 Mar (SGD m)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	118	124	124	125	128
Distribution income	70	74	78	79	83
Outstanding shares (M)	691	694	697	700	704
DPU (SGD cts)	10.3	10.7	11.2	11.4	11.8
DPU growth (%)	-0.5%	4.7%	4.6%	1.2%	3.6%
Yield (%)	7.4%	7.7%	8.1%	8.2%	8.5%
BV per share	1.34	1.34	1.34	1.33	1.32
P/B (x)	1.0	1.0	1.0	1.0	1.1

Source: Company, SCCM Research; as of 29 May 2019



29 May 2019

REPORT AUTHORS

Zhao Yiyuan
 +65 6671 8126
 yiyuan.zhao@sccmasia.com

PRICE CLOSE (28 Apr 2019)
 SGD 1.390

MARKET CAP
 SGD 960.4 mln
 USD 694.9 mln

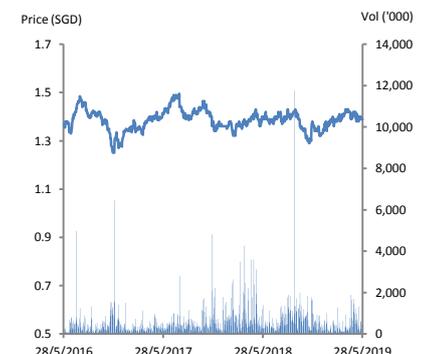
SHARES O/S
 690.9 mln

FREE FLOAT
 71.6%

3M AVG DAILY VOLUME/VALUE
 SGD 0.593 mln / USD 0.429 mln

52 WK HIGH 52 WK LOW
 SGD 1.440 SGD 1.290

Target Price SGD 1.63



DPU accretive transaction

- DPU accretion of +0.8% based on FY19 pro-forma data:** AAREIT proposed the acquisition of The Boardriders APAC HQ, which is an Australian light industrial asset of 14,833sqm by NLA, comprising warehousing facility, office and a retail showroom. The property is located within the established Burleigh Heads suburb and around 17km away from Southport CBD and 13km away from Gold Coast Airport. The acquisition price of A\$38.46m (S\$36.92m) implies a 7.8% yield based on yr1 NPI. We estimate interest cost to be ~4% and the recurring trust-related expenses and WHT taxes to add up to ~3% of property acquisition costs resulting in estimated DPU accretion is hence at ~+0.8%. The one-off transaction cost of ~A\$3.04m will have minimal impact on DPU given tax adjustments as a result of amortization and write-off of borrowing transaction costs. The acquisition is to be fully funded by debt, and will increase gearing to ~35.5% from ~33.7% in FY19.

Boardriders Inc is an outdoor sports lifestyle group headquartered in USA. Its products are sold in over 110 countries and operates in wholesale, retail and ecommerce channels. Both the Vendor and the Master tenant are wholly-owned subsidiaries of Boardriders Inc.

Fig 1 - Overview of proposed acquisition

Location of Property	Gold Coast, Australia
Purchase Consideration	A\$38.46m/S\$36.92m ⁽¹⁾
Year 1 NPI ⁽²⁾	A\$3.0m
Headline NPI Yield ⁽³⁾	7.8%
Initial Lease Term	12 years
Rental Escalation	3.0% pa
Transaction Costs	A\$3.04m/S\$2.92m ⁽¹⁾
Total Acquisition Cost	A\$41.5m/S\$39.84m ⁽¹⁾
Independent Valuation	A\$38.46m/S\$36.92m ⁽¹⁾
Occupancy	100%

Source: Company; (1): Based on FX of A\$1.00/S\$0.96 (2): The lease is on a triple net lease structure, eg. Master tenant is responsible for the outgoings at the property. (3): Based on 1st year property income of A\$3m over the purchase consideration.

Fig 2 - Proforma impact on key financial metrics

	31Mar19	Post-Acquisition ⁽¹⁾	Change
Total Assets	S\$1,484.8m	S\$1,521.7m	2.5%
NAV per Unit	S\$1.34	S\$1.34	-
Aggregate leverage	33.7%	35.5%	5.3%
DPU cents ⁽²⁾	10.25 cents	10.33 cents	0.8%
DPU Yield ⁽³⁾	7.43%	7.49%	0.8%

Source: Company; (1): Based on FX of A\$1.00/S\$0.96. (2): Based on Units outstanding and FY19 distributions to Unitholders. (3): Based on the closing price of S\$1.38 on 14May19

Asset provides diversification and stability to portfolio

- Diversification in terms of geography and industrial segment contributions:** We see the acquisition to be a positive on portfolio diversification in terms of geography (increases AUS assets' contribution from ~13.1% to 15.1%) and in terms of segments (increases Light Industrial contributions from ~9.3% to 11.4%).
- Improved income stability and WALE:** The asset addition boosts portfolio stability as it has a triple-net master lease, and comes with downside protection from the 3% pa rental escalation with a rent review in year 7 (at 3% or higher escalation). As a result, the master lease component increases from 34.1% to 35.7%. Portfolio WALE increases from 2.59yrs to 2.76yrs due to the asset's 12-yr master lease. The Weighted Average Land Lease Expiry will also increase from 36.4 years to 37.8 years.

The triple-net master lease gives the property close to 100% NPI margins as the master lease tenant is responsible for the outgoings of the property such as repair and maintenance costs, and insurance and taxes, etc.

Fig 3 - Property Details

Property Description	Light industrial facility comprising warehousing facility, office and a retail showroom.
Address	209-217 Burleigh Connection Road, Burleigh Heads, Queensland, Australia
Location	Burleigh Heads is a suburb in the south of Queensland's Gold Coast and 11km south of Surfers Paradise, with an established mix of industrial, showroom, large format retail, commercial and retail shopping centres.
Land Tenure	Freehold
Land Area	33,300sqm
NLA	14,833sqm
Vendor	GSM Rocket Australia Pty Ltd (Wholly-owned subsidiary of Boardriders, Inc)
Master Tenant	GSM (Operations) Pty Ltd (Wholly-owned subsidiary of Boardriders, Inc)
Rental Escalation	3% pa, with rental review of minimum 3% commencing Year 7

Source: Company

BUY

TP: SGD 1.63

▲ 17.5%

AIMS APAC REIT

AAREIT.SP

Flash Note

Singapore

REITs

Financial Statements**Income Statement**

Y/E 31 Mar (in SGD'm)	FY19A	FY20E	FY21E	FY22E	FY23E
Gross Revenue	118.1	123.8	124.4	125.0	128.3
Gross Revenue Growth Rate	1.0%	4.9%	0.5%	0.4%	2.6%
Property Expenses	(39.6)	(40.5)	(37.1)	(36.8)	(37.3)
Net Property Income	78.5	83.3	87.3	88.2	91.0
Other Operating Income	(0.1)	0.0	0.0	0.0	0.0
EBIT	78.3	83.3	87.3	88.2	91.0
EBIT Margin	66.4%	67.3%	70.2%	70.5%	70.9%
Non-Operating Income /(Expense)		(0.5)	(1.1)	(1.1)	(1.1)
Trustee-Manager's fees	(7.4)	(6.4)	(6.4)	(6.4)	(6.4)
Trustee's fee	(2.2)	(1.3)	(1.3)	(1.3)	(1.3)
Shares of Associate or JV Income	23.8	15.8	16.3	16.8	17.3
Interest Income	0.2	0.2	0.2	0.2	0.2
Interest Expense	(18.7)	(20.4)	(20.4)	(20.4)	(20.4)
Exceptional Gains/(Losses)	(4.8)	(2.9)	0.0	0.0	0.0
Net Income bef tax	69.3	67.9	74.7	76.0	79.3
Tax	(2.7)	(1.4)	(1.6)	(1.6)	(1.7)
Net Income	66.6	66.5	73.1	74.4	77.6
Net Gains from revaluation of properties	(16.5)	2.8	0.0	0.0	0.0
Total Return for the year	50.0	69.3	73.1	74.4	77.6
Invnt Income available for distribution	70.5	74.3	78.1	79.4	82.6
DPU (cents)	10.25	10.73	11.22	11.36	11.77
DPU Growth Rate	-0.5%	4.7%	4.6%	1.2%	3.6%

Balance Sheet

Y/E 31 Mar (in SGD'm)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash	18.1	17.1	17.3	17.5	18.2
Trade Receivables	5.9	6.9	6.9	7.0	7.2
Current Assets	24.0	24.0	24.3	24.5	25.3
Investment Properties	1,202.3	1,271.6	1,271.6	1,271.6	1,271.6
Investments in Associates & JVs	221.8	221.8	221.8	221.8	221.8
Other LT Assets	36.7	7.1	7.1	7.1	7.1
Non-Current Assets	1,460.8	1,500.5	1,500.5	1,500.5	1,500.5
Total Assets	1,484.8	1,524.6	1,524.8	1,525.0	1,525.9
Trade Payables	34.1	29.8	29.9	30.0	30.8
OD & ST Debt	80.0	80.0	80.0	80.0	80.0
Tax Provision	0.0	1.4	1.6	1.6	1.7
Other ST Liabilities	0.0	0.0	0.0	0.0	0.0
Current Liabilities	114.0	111.2	111.4	111.6	112.5
LT Debt	417.5	457.3	457.3	457.3	457.3
Deferred Taxes	8.0	8.0	8.0	8.0	8.0
Other LT Liabilities	16.8	16.8	16.8	16.8	16.8
Non-Current Liabilities	442.3	482.1	482.1	482.1	482.1
Total Liabilities	556.3	593.3	593.6	593.7	594.6
Total Unitholders' Equity	928.5	931.3	931.3	931.3	931.3
Total Liabilities and Equity	1,484.8	1,524.6	1,524.8	1,525.0	1,525.9

BUY

TP: SGD 1.63

▲ 17.5%

AIMS APAC REIT

AAREIT.SP

Flash Note

Singapore

REITs

Cash Flow Statement

Y/E 31 Mar (in SGD'm)	FY19A	FY20E	FY21E	FY22E	FY23E
Pre-tax Profit	69.3	67.9	74.7	76.0	79.3
Tax Paid	(0.1)	0.0	(1.4)	(1.6)	(1.6)
Associates & JVs Inc	(23.8)	(15.8)	(16.3)	(16.8)	(17.3)
Other Non-Cash Adjustments	26.6	7.8	5.0	5.0	5.0
Changes in Non-Cash Work Cap	0.3	(5.4)	0.1	0.1	0.6
Cash From Operations	72.4	54.6	62.1	62.7	66.0
Net Change in Property Investments	(14.3)	(66.5)	0.0	0.0	0.0
Net Change in Investments	0.0	0.0	0.0	0.0	0.0
Net Change in Invmts in Assoc & JVs	(0.6)	0.0	0.0	0.0	0.0
Dividends rec'vd from Associates & JVs	15.1	15.8	16.3	16.8	17.3
Other Investing Activities	(29.6)	29.6	0.0	0.0	0.0
Cash from Investing Activities	0.2	(21.1)	16.3	16.8	17.3
Distribution to Unit Holders	(63.8)	(74.3)	(78.1)	(79.4)	(82.6)
Net Change in Gross Debt	11.3	39.8	0.0	0.0	0.0
Issue of Units (net of Expenses)	(0.1)	0.0	0.0	0.0	0.0
Other Financing Activities	0.0	0.0	0.0	0.0	0.0
Cash from Financing Activities	(71.9)	(34.5)	(78.1)	(79.4)	(82.6)
Net Changes in Cash	0.7	(1.0)	0.3	0.1	0.7

Per Share Data

Y/E 31 Mar (SGD)	FY19A	FY20E	FY21E	FY22E	FY23E
EPU	0.07	0.10	0.11	0.11	0.11
DPU	0.10	0.11	0.11	0.11	0.12
BVPU	1.34	1.34	1.34	1.33	1.32

Valuation Ratios

Y/E 31 Mar (x)	FY19A	FY20E	FY21E	FY22E	FY23E
P/E	19.1	13.9	13.2	13.1	12.6
P/B	1.0	1.0	1.0	1.0	1.1

Financial Ratios

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E	FY23E
Profitability & Return Ratios (%)					
EBIT margin	66.4	67.3	70.2	70.5	70.9
Net profit margin	56.4	53.7	58.8	59.5	60.5
ROE	7.1%	7.2%	7.9%	8.0%	8.3%
ROCE	5.8%	5.9%	6.2%	6.3%	6.5%
Working Capital & Liquidity Ratios					
Receivables (days)	20	20	20	20	20
Payables (days)	88	88	88	88	88
Current ratio (x)	0.21	0.22	0.22	0.22	0.23
Turnover & Leverage Ratios (x)					
Total asset turnover	0.08	0.08	0.08	0.08	0.08
Gearing	0.34	0.35	0.35	0.35	0.35

RESEARCH DISCLAIMER

Important Disclosures

This report was prepared, approved, published and distributed by SooChow CSSD Capital Markets (Asia) Pte. Ltd. (Company Registration number: 201726618K) ("SCCM") which is a company located outside of the United States.

Subject to any applicable laws and regulations at any given time, SCCM, its affiliates or companies or individuals connected with SCCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of SCCM.

Stock Ratings are defined as follows

Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Research Conflict Management Policy

SCCM research has been published in accordance with our conflict management policy, which is available upon request.

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject SCCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to SCCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of SCCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SCCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. SCCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. SCCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that SCCM believes to be reliable, but SCCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. SCCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SCCM. This report is not to be relied upon in substitution for the exercise of independent judgment. SCCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by SCCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in Singapore by SCCM which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to SCCM when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact SCCM in respect of any matters arising from, or in connection with, this publication/communication. If you wish to enter into a transaction, please contact the relevant Connected Company in your home jurisdiction unless governing law provides otherwise. If jurisdictions where the Connected Companies are not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

SCCM and the Connected Companies may do or seek to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by SCCM. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's or publisher's estimates and views and does not represent the views of SCCM; and SCCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on SCCM's own website, SCCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to SCCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or SCCM's website shall be at your own risk.

For U.S. persons only

This research report is a product of SCCM, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is not intended for distribution by SCCM into the U.S.

Special Disclosures (if applicable)

Not Applicable