COMPANY UPDATE

REIT ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

AIMS APAC REIT

(AAREIT SP/AIMA.SI)

Proving a resilient portfolio

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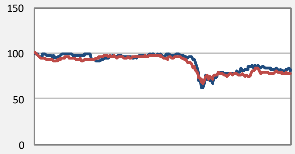
- 1Q21 results held steady despite circuit breaker measures that have plagued many of its REIT peers. While gross revenue and NPI were down YoY due to the expiry of two master leases, AIMS APAC REIT (AAREIT) continues to actively manage its leases and capitalise on the increasing demand for warehousing and logistics spaces.
- We maintain a relatively positive outlook on the industrial real estate sector in the near and medium term, especially as demand for logistics and warehouse space is expected to be sustained even post Covid-19, as businesses shift towards not only online e-commerce, but also relying less on just-in-time inventory.

Not Rated			
Price as of 27 Jul 20 (SGD)	1.19	**Performance (Absolute)**	
12M TP (SGD)	-	1 Month (%)	-4.0
Previous TP (SGD)	-	3 Month (%)	8.8
Upside, incl div (%)	0.0%	12 Month (%)	-13.3
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap (USD mn)	841		
Issued Shares (mn)	707		
Vol - 3M Daily avg (mn)	1.6		
Val - 3M Daily avg (SGD mn)	2.0		
Free Float (%)	67.8		
Major Shareholders		**Previous Recommendations**	
ESR Cayman Ltd	12.1%		
Dragon Pacific Assets Limited	8.9%		
George Wang	8.0%		

Financials & Key Operating Statistics

YE Mar SGD mn	2016	2017	2018	2019	2020
Gross revenue	124.4	120.1	116.9	118.1	118.9
Net property income	82.3	79.4	76.4	78.5	89.1
Distributable income	72.1	70.5	67.4	70.5	66.5
DPU (SGD cents)	11.35	11.05	10.30	10.25	9.50
DPU growth (%)	2.5	-2.6	-6.8	-0.5	-7.3
Div Yield (%)	9.5	9.3	8.7	8.6	8.0
NAV (S$)	1.48	1.39	1.37	1.34	1.35
Price / Book (x)	0.8	0.9	0.9	0.9	0.9
NPI Margin (%)	66.4	69.3	66.2	66.1	65.4
Net Margin (%)	77.6	93.6	32.8	11.2	52.3
Gearing (%)	31.7	31.4	32.4	36.1	33.5
ROE (%)	9.2	11.2	4.3	1.5	6.5

Source: AAREIT, KGI Research

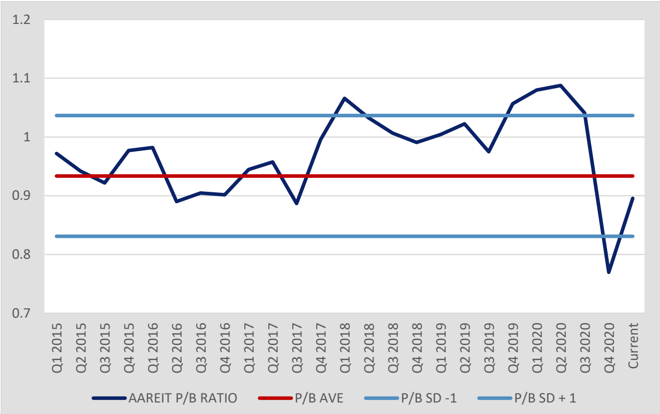
1Q21 review. 1Q21 results were in line with expectations of a weaker quarter considering circuit breaker measures that were enforced for two out of three months, resulting in rental rebates and waivers for some tenants. Distributable income decreased S$3.2mn YoY, or 18.6%, to S$14.1mn, including the distribution of previously retained Australian distributable income in 4Q20, of S$2.9mn. DPU was maintained at 2.00 Sing cents for the quarter, same as the previous quarter but a 20% YoY drop from 2.50 Sing cents in 1Q20.

1Q21 NPI totalled S$18.6mn, approximately 18.8% lower YoY for the quarter. The decrease was mainly due to (1) an estimated provision for waiver of rent of S$2.6mn, (2) lower contributions from 1A International Business Park and 20 Gul Way arising from the conversion from master leases to multi-tenancy leases, as well as (3) the expiry of two phases of the master lease at 30 Tuas West Road (CWT Pte. Limited; c.3.4% GRI) and the master lease at 541 Yishun Industrial Park A (King Plastic Pte Ltd; c.1.6% GRI). The decrease however, was partially offset by rental contribution from Boardriders Asia Pacific HQ (acquired in July 2019) and full quarter contribution from the recently completed property at 3 Tuas Avenue 2.

AAREIT has achieved a relatively stable performance through the downturn in the last quarter in comparison to the rest of the real estate sectors; even with the circuit breaker measures in full swing for most of 1Q21, AAREIT managed to secure 2 new additional leases and 9 lease renewals, significantly improving portfolio occupancy to 93.6% from 89.4% in 4Q20, led by logistics and warehouse demand. Following a similar trend, we expect FY21 GRI to be supported by positive contributions from the logistics and warehouse leases that make up 11% of the 16% of leases expiring in FY21.

Overall blended cost of debt has decreased to 3.3% (4Q20: 3.5%), while weighted average debt maturity post-refinancing (as of 9 July 2020) has increased to 3.3 years with no debt due until November 2021. AAREIT also maintains a healthy gearing of 34.8%, with 4.0x interest coverage. 1Q21 also marked a milestone for the REIT as it was included in the MSCI Singapore Small Cap Index as of 30th May 2020.

Figure 1: AAREIT price-to-book ratio, 1Q 2015 – 1Q 2020



Source: Bloomberg, KGI Research

Risks: Slowing in leasing demand for general industrial property 541 Yishun Industrial Park A as focus shifts towards logistics/warehouse leases; significant downward pressure on rental reversions as real impact of circuit breaker emerges over the coming quarters.

2020 Business Review

In July 2019, AAREIT acquired Boardriders Asia Pacific HQ, a light industrial property located in Gold Coast, Queensland, Australia for AUD38.46 million with a headline yield of 7.8%. The property sits on a 3.33 hectare freehold site with a purpose built warehouse and office building and a two-storey retail building, with a total net lettable area of 14,833 square metres. The property is leased to GSM (Operations) Pty Ltd, wholly-owned subsidiary of Boardriders, Inc., for 12 years on a triple net lease basis with stipulated annual rent increments and a rent review at mid-term of the lease. During FY2020, the property contributed a maiden rental contribution of S$2.6 million, representing c.2.2% of gross rental income (GRI).

Boardriders, Inc., a global leading actions sports and lifestyle company that designs, produces and distributes branded ready-to-wear apparel, footwear and accessories under globally-recognised brands including Quiksilver, Billabong, Roxy, DC Shoes, RVCA and Element. The company previously announced in September 2019 that it would be launching a multi-year growth agenda by investing in a range of strategic initiatives across seven major pillars – expanding its leadership in women's products, further investing in its digital transformation, leveraging the strength of its brands to expand into new categories, unlocking new revenue streams through partnerships, increasing speed and regional flexibility in product development, and changing go-to-market models to better serve key customers. In addition, Boardriders will also launch a new centralized sustainability platform to align and strengthen the Company's corporate and brand sustainability efforts.

Figure 2: Boardriders Asia Pacific HQ, 209-217 Burleigh Connection Road, Burleigh Waters, Queensland, Australia

Source: AAREIT Annual Report 2020

AAREIT, together with its joint venture partner, Stockland, also successfully secured a new 12-year agreement for lease at Optus Centre in Macquarie Park, New South Wales, Australia, with its largest tenant Optus Administration Pty Limited (Optus). The master lease agreement includes built-in annual rental escalation of 3.25% on face rent, and two, five-year options to extend the lease after the initial lease term. The estimated net property income (NPI) for the first year of the new lease is approximately A$28.3 million; average NPI over the 12-year lease term, taking into consideration rental escalation, is projected to be approximately A$36.5 million. Optus contributes 14.1% of AAREIT's GRI as of 30 June 2020. It is owned through AAREIT's 49% stake in the Macquarie Park Trust, with its joint venture partner Stockland, owning the remaining 51% (through two separate holdings).

This significant milestone is one of Australia's largest recorded lease deals, commencing from 1 July 2021 following the completion of an AEI to cater to Optus' evolving operational requirements. Optus is a wholly-owned subsidiary of SingTel Optus Pty Ltd, Australia's second largest telecommunications company, which is a wholly-owned subsidiary of Singapore Telecommunications Limited, Asia's leading communications technology group. The property will remain operational while the AEI works are being carried out.

Figure 3: Optus Centre, 1-5 Lyonpark Road, Macquarie Park, New South Wales, Australia

Source: AAREIT Annual Report

The AEI at NorthTech, which commenced in July 2018, did not affect the property's rental income as it remained operational while the upgrades were being carried out.

During the year, AAREIT also completed an asset enhancement initiative (AEI) at its NorthTech property in Singapore, increasing the property's value to S$116.5mn post-AEI. The property comprises an L-shaped four-storey high-technology industrial building with a basement car park. The building is serviced by nine passenger lifts, nine cargo lifts and six lift lobbies with ancillary canteen and clinic located on the first storey. Asset enhancement works for the common areas, including the passenger lift lobbies, toilets and external landscaping, and upgrading of the air-conditioning system, light fittings as well as water efficient fittings were completed in January 2020. The fully occupied, multi-tenanted, hi-tech property has a remaining land lease term of 34.8 years, with annual gross rental income of S$10.8mn.

Figure 4: NorthTech, 29 Woodlands Industrial Park E1, Singapore

Source: AAREIT Annual Report

AAREIT also completed the design-and-build redevelopment of 3 Tuas Avenue 2 within budget and on schedule, transforming the asset into a versatile ramp-up industrial facility suitable for production and storage. The property's facilities align with the Singapore Government's master plan to develop and upgrade the Tuas region into a high performing industrial district, thereby enabling AREIT to capture growth in demand for industrial space.

In addition, a 10-year master lease agreement was secured for 3 Tuas Avenue 2 prior to completion of the redevelopment with a global medical device design and development, storage and distribution company. The master lease is on a triple net lease basis with rental escalations every two years during the initial term, and options to renew the lease for up to a further 20 years after the expiry of the initial 10-year term.

3 Tuas Avenue 2 received its Temporary Occupation Permit (TOP) on 10 January 2020, and the property is expected to provide S$3.8 million in rental income in the first year with an approximate initial net property income yield of 8.3% based on the estimated development cost. Valued S$54.3mn, the general industrial property has a remaining land lease of 35.0 years.

Both NorthTech and 3 Tuas Avenue 2 have received the Building and Construction Authority (BCA) Green Mark Award to recognize its adoption of green building technologies.

Figure 5: 3 Tuas Avenue 2, Singapore

Source: AAREIT Annual Report

Peer Comparisons

AAREIT trades favourably compared to its industrial peers, offering a FY20F (based on consensus forecast) dividend yield of 8.7%, a 2.5% pts premium to peer average. AAREIT also trades at a 10% discount to book, in line with its small-mid cap peers. Unit price performance has also tracked that of its peers whose market capitalisation are below S$1 billion, that are still down by 13-26% YTD, compared to the 5-24% YTD unit price appreciation of the larger cap industrial REITS such as Ascendas REIT (AREIT SP) and Mapletree Industrial Trust (MINT SP).

Figure 6: Peer Comparisons

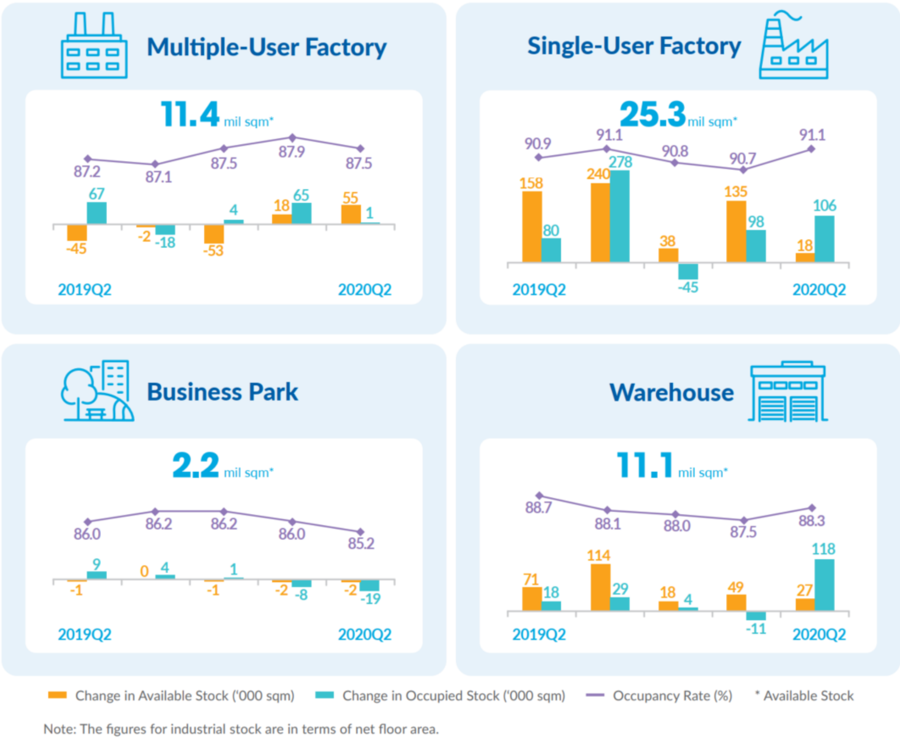
BB ticker	Company Name	Last Price (local $)	Currency Adj. Market Cap	Dividend Yield (%) Current	Dividend Yield (%) FY19	Dividend Yield (%) FY20F	P/B (x) Current	P/B (x) FY19F	P/B (x) FY20F	6M Average daily trading volume	YTD Price Performance	1YR Price Performance
AAREIT SP	AIMS APAC REIT	SGD 1.19	609	9.1	9.8	8.7	0.9	0.7	0.7	2,284	-16.8	-19.0
	SINGAPORE LISTED INDUSTRIAL REITS (Avg)		**26,118**	**6.6**	**6.2**	**6.2**	**1.2**	**1.2**	**1.2**	**16,592.6**	**(2.6)**	**(1.3)**
AREIT SP	Ascendas Real Estate Investment Trust	SGD 3.51	9,206	5.3	4.4	4.4	1.7	1.6	1.6	54,609	18.2	18.0
MINT SP	Mapletree Industrial Trust	SGD 3.22	5,477	5.0	3.8	3.9	2.0	1.9	2.0	25,568	23.8	41.2
MLT SP	Mapletree Logistics Trust	SGD 2.11	5,816	5.2	3.9	3.8	1.8	1.7	-	43,452	21.3	31.1
FLT SP	Frasers Logistics & Commercial Trust	SGD 1.25	3,087	5.5	5.8	5.8	1.2	1.2	1.2	13,285	5.0	3.3
EREIT SP	ESR-REIT	SGD 0.40	1,010	7.7	7.3	7.3	0.9	0.9	0.9	8,582	-25.5	-26.1
ECWREIT SP	EC World Real Estate Investment Trust	SGD 0.65	379	8.1	8.8	8.8	0.7	0.8	0.8	903	-12.8	-12.8
ALLT SP	ARA LOGOS Logistics Trust	SGD 0.60	472	7.7	8.3	8.3	1.0	1.0	1.0	1,499	-16.1	-21.6
SBREIT SP	Soilbuild Business Space REIT	SGD 0.42	381	7.7	-	-	0.7	-	-	794	-20.2	-29.6
SSREIT SP	Sabana Shari'ah Compliant Industrial Rea	SGD 0.38	290	7.7	6.8	6.8	0.7	0.7	0.7	643	-17.4	-15.6
	SINGAPORE LISTED CHINA RETAIL REITS (Avg)		**2,425**	**7.1**	**6.9**	**7.1**	**0.7**	**0.9**	**0.9**	**8,705.9**	**(14.7)**	**(13.7)**
SASSR SP	Sasseur Real Estate Investment Trust	SGD 0.78	675	7.4	7.7	7.7	0.8	0.9	0.9	2,287	-12.4	-2.5
BHGREIT SP	BHG Retail REIT	SGD 0.57	210	5.6	-	-	0.7	-	-	555	-16.8	-18.0
CRCT SP	CapitaLand Retail China Trust	SGD 1.25	1,107	7.7	6.6	-	0.8	1.0	1.0	5,650	-22.4	-22.7
DASIN SP	Dasin Retail Trust	SGD 0.78	433	7.7	6.5	6.5	0.6	-	-	214	-7.2	-11.4

Source: Bloomberg, KGI Research

Industrial Sector Outlook

As at end 2Q 2020 (June 2020), occupancy rates for the overall industrial property market rose marginally by 0.2 percentage points on a QoQ basis, and 0.1 percentage points on a YoY basis. The increase was mainly due to increases in occupancy of single-user factory and warehouse space, in line with trends perpetuated by the pandemic, as a result of an increased emphasis on physical distancing of business operations, and stockpiling and storage. In the same period, occupancy rates for multiple-user factory and business park space fell.

Figure 7: Vacancies and occupancy rates in various segments of the industrial sector, as at 2Q 2020



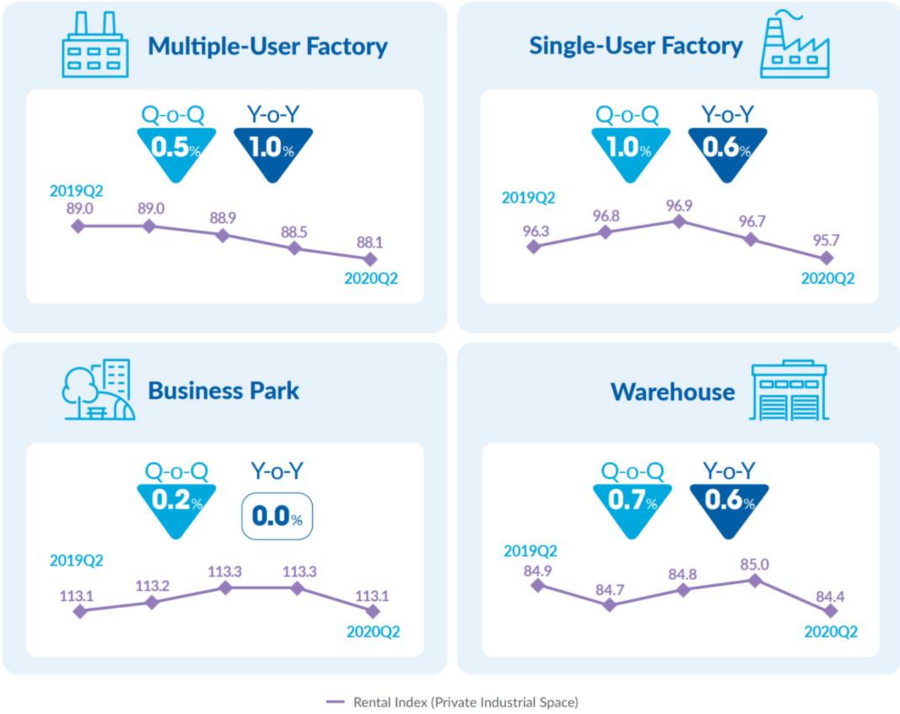
Source: JTC Quarterly Market Report 2Q 2020, KGI Research

While prices and rentals have also faced downward pressure in the last quarter, we think that it is still too early to determine whether the price and rental indices will continue on a downward trend, especially in the warehouse and logistics space. We see near-term tailwinds for the warehouse and logistics space as construction and supply continues to be delayed; business parks may see mid-to-long term tailwinds as we see accelerated structural changes in the workplace and companies shift towards flexible and adaptable workspaces.

In 2Q 2020, price index of all industrial space fell by 1.1% QoQ and 1.7% YoY, while the rental index fell 0.7% and 0.8% respectively. However, JTC expects that the full economic impact of Covid-19 has not yet been captured, and that there would be continued downward pressures on prices and rentals in the coming quarters, as previously seen during the Global Financial Crisis of 2008. During the GFC, prices and rentals only started to show steeper declines two quarters later.

As at end June 2020, about 1.3mn sqm of new industrial space is expected to be completed in the second half of 2020, a sharp decline from 2.1mn sqm as previously reported in 1Q 2020. This was mainly due to the impact of circuit breaker measures on the construction sector. However, we expect to see further delays in construction completions as project owners and contractors adjust to meet BCA's Safe Restart requirements.

Figure 8: Rental index for various segments of the industrial sector, as at 2Q 2020



Source: JTC Quarterly Market Report 2Q 2020, KGI Research

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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