



Securities Investors Association (Singapore)

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REIT: Ascendas Real Estate Investment Trust
(Manager: Ascendas Funds Management (S) Ltd)

Stock code: A17U

Meeting details:

Date: 29 June 2020

Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Would the manager provide unitholders with better clarity on the following operational/strategic matters? Specifically:

- (i) **Portfolio occupancy:** While it was mentioned in the chairman's message that the portfolio occupancy was stable at 90.9%, it was a drop from 91.9% as at 31 March 2019. The drop in the occupancy rates of the Singapore portfolio was between (1.1)% and (2.1)%. The overall portfolio Singapore portfolio was at 87.2% while the occupancy rate of multi-tenant buildings was just 83.4%, down (2.1)%.

Singapore Portfolio Occupancy

	As at 31 December 2019	As at 31 March 2019	Change
Total Singapore Portfolio GFA (sq m)	3,061,210 ⁽¹⁾⁽²⁾	3,034,122	+0.9%
Singapore Portfolio Occupancy (Same Store) ⁽³⁾	87.1%	88.4%	-1.3%
Singapore Multi-tenant Building Occupancy (Same Store) ⁽⁴⁾	83.7%	85.0%	-1.3%
Overall Singapore Portfolio Occupancy	87.2%	88.3%	-1.1%
Singapore Multi-tenant Building Occupancy	83.4%	85.5%	-2.1%

(Source: annual report)

With approximately one-sixth of the space vacant, is there an over-supply in the multi-tenant buildings segment? Coupled with the challenges from the pandemic, what are the manager's plans to improve the occupancy rates of the Singapore portfolio?

- (ii) **Galaxis:** On 31 March 2020, the REIT announced the acquisition of a 25% stake in Galaxis for \$102.91 million. It was disclosed that the acquisition was accretive to the REIT's distribution per Unit and was transacted at a net property income yield of 6.2%. The property is zoned for Business Park use with a 30% White Component. **Can the manager help unitholders understand the rationale for acquiring a minority stake in a rather mature asset? What is the level of control or influence over the daily operations and strategic direction? Are there opportunities for the manager to value-add given its minority 25% stake?**
- (iii) **Redevelopment:** Which assets in its Singapore portfolio have the potential to be redeveloped? At the moment, the REIT is redeveloping iQuest@IBP and 25 & 27 Ubi Road 4. **What is the investment hurdle used by the manager in its planning process for its redevelopment projects?**

Q2. As at 31 December 2019, the REIT has the following exposure in its investment property portfolio:

- business park and suburban office properties: 44%
- industrial properties: 31%
- logistics properties: 25%

(i) **What are the long-term capital allocation targets by asset class as set by the board?**

By geography, the distribution is as follows:

- Singapore: \$9.1 billion (72%)
- Australia: \$1.6 billion (12%)
- US: \$1.3 billion (10%)
- UK: \$0.8 billion (6%)

The CEO has mentioned in his interview that the REIT will remain a Singapore-centric REIT with 60% to 70% of its investments in Singapore.

(ii) **Similarly, does the manager have a pre-determined portfolio allocation by geography?**

(iii) **For the overseas markets, where does the manager see the greatest opportunities?**

Q3. In April 2020, the Monetary Authority of Singapore increased the aggregate leverage for REITs to 50% and delayed the implementation of the interest cover ratio of 2.5x.

As noted on page 44, the REIT has an aggregate leverage of 35.1%. There is a debt headroom of approximately \$1.1 billion before the aggregate leverage reaches 40.0%. In the 1Q2020 update, the aggregate leverage has increased to 36.2% and the manager stated that the available debt headroom is \$3.8 billion before the aggregate leverage reaches 50%.

The REIT has an interest cover ratio 5.0x as at 31 March 2020, improving from the ICR of 4.9x as at 31 December 2019.

(i) **Would the manager help unitholders understand the practical debt headroom available?** In the past, REITs have not used up the full aggregate leverage as a matter of prudence in view of market volatility.

(ii) **Specifically, has the board set an internal limit on aggregate leverage?**

- (iii) **Would the manager be utilising the extra headroom from the higher aggregate leverage limit (of 50%) to push ahead with its acquisitions or will the REIT be using it as a buffer during this uncertain time?**
- (iv) **During this COVID-19 outbreak, are there opportunities for the REIT to acquire good assets at distressed prices?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)