



Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Stapled group: Ascott Real Estate Investment Trust & Ascott Business Trust
(Managers: Ascott Residence Trust Management Limited &
Ascott Business Trust Management Pte. Ltd.)

Stock code: HMN

Meeting details:

Date: 16 June 2020

Time: 10.00 a.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 board/manager provide stapled securityholders with better clarity on the following matters? Specifically:

- (i) **Master leases:** Following the combination with Ascendas Hospitality Trust, the stapled group now owns 88 properties of which 35 are under Master Leases, 7 are on Management Contracts with Minimum Guaranteed Income and 45 are purely Management Contracts. **Can management help stapled securityholders understand if the stapled group's income from the master leases, by their very nature, are stable in the past 4-5 months and are largely unaffected by the disruption on the ground due to the pandemic?**
- (ii) **Japan:** As noted in ART's update on 30 April 2020, WBF, the master lessee to 3 ART properties in Osaka, Japan, filed for civil rehabilitation on 27 April 2020. As disclosed, rent up to April 2020 has been received for all 3 properties and a further 3 months' rent in security deposits is held in escrow. Under the civil rehabilitation proceedings, WBF may choose to continue or terminate the master leases. **How soon will the decision be made? Can the manager list down the other non-sponsor related master lessees and operators running the group's properties?**
- (iii) **Opportunistic acquisitions:** Given the stress in the system, what are the prospects for ART to acquire prime assets that may be available on an opportunistic basis?
- (iv) **Growth strategy:** Would the board be re-evaluating the business model to finetune the various aspects of its growth strategy, including geographical allocation (Asia Pacific/Europe/Americas), operating model (master leases/ management contracts and long stay/short stay), market segment (luxury/midscale/economy)?

Q2. In the message to stapled securityholders, it was stated that the debt headroom increased to approximately \$1.5 billion based on the aggregate leverage of 45%. This headroom would give ART great financial flexibility to capture potential opportunities globally.

- (i) **Would management clarify if it would be utilising the maximum allowed aggregated leverage or is there an internal upper limit set by the board on the "practical" maximum aggregate leverage?** While the maximum aggregate leverage is 45% (and since been raised to 50% by the Monetary Authority of Singapore in April 2020), as a matter of prudence, REITs have generally included a buffer and stayed below the maximum aggregate leverage.

- (ii) **With the increased aggregate leverage of 50%, how would management be utilising the higher aggregate leverage? Would it be used as a buffer during this challenging time or would ART be adjusting its acquisition pace and strategy to take advantage of the greater headroom available?**
- (iii) **Now that the stapled group consists of a business trust (“BT”) and a real estate investment trust (“REIT”), can the trustee-manager clarify if the BT side of ART would be managed like a REIT where there are rules on aggregate leverage and a minimum distribution of 90% of its income (for a REIT’s tax benefit but not applicable to BT)?**

Q3. During the year, ART successfully refinanced its borrowings at lower rates and kept its effective cost of debt at 2.0% per annum.

A new tranche of perpetual securities at a fixed rate of 3.88% was issued in September 2019 to fund the redemption of the existing \$150.0 million 5.00% perpetual securities at its first call date in October 2019, saving the trust an expected \$1.7 million annually.

For the \$250 million 4.68% perpetual securities which is callable on 30 June 2020, it would appear that ART would reset the distribution rate on 30 June 2020.

- (i) **How does the manager determine if a perpetual securities issue would be called or reset?**

As at 31 December 2019, 61% of ART’s total debt was funded by bank borrowings and the balance 39% was tapped from the debt capital market (page 77 – Financial review). The outstanding borrowings was S\$2,349.0 million (2018: S\$1,905.5 million) with an effective interest rate at 2.0% per annum.

As shown in the 1Q 2020 business update, the effective borrowing cost has been further reduced to 1.8% per annum.

The ~\$400 million in perpetual securities is classified as equity according to accounting standards. In 2019, the total distribution to perpetual securities holders was \$19.7 million although the FY2020 figure is likely to be lower.

- (ii) **Has the board re-evaluated the optimal capital structure given the capital-intensive nature of the business and the increased volatility due to the pandemic and the global economic conditions?**

^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)

Join our mailing list [here](#) to receive latest news and upcoming events.

CONNECT WITH US



^ 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>)