

Ascendas REIT

Equity raising

AREIT announced plans to raise c. S\$217m of new equity from the public through a 1-for-20 preferential offering and private placement, to partially finance the acquisition of 12 properties. In addition, approximately 11m new consideration units will be issued to Ascendas Land (AREIT's parent) for its Techview property. In all, AREIT will be raising S\$240m in new equity. Our forecasts assume acquisitions worth S\$670m for the remainder of FY06. We maintain our BUY recommendation and yield-spread based target price of S\$2.32 as the stock has fallen to more attractive levels.

· **Details of equity raising.** AREIT plans to raise S\$216.9m by issuing 101.8m new units for the partial funding of the acquisition of 12 properties. The new units will be priced at S\$2.13 each, representing a 2.9% discount to the weighted average price for the last 1.5 trading days (S\$2.19). A 1-for-20 preferential offering for existing unitholders will comprise between 58.5m-64.5m new units. The balance of the new units will be sold through private placement. In addition, 10.6-11.2m new consideration units will be issued to Ascendas Land to finance the acquisition of the Techview property. In all, S\$240m in new equity will be raised. Gearing is expected to fall from 31.5% to 30.2% after the equity raising. AREIT's new units will pay distributions from the date of issue (expected 5 Oct 2005) to 31 Dec 2005. Its existing units will pay a cumulative distribution from 1 Jul 2005 to 4 Oct 2005.

· **Acquisitions will continue.** Meanwhile, there are potentially another S\$3.3bn worth of investment grade industrial properties in Singapore to be added to A-REIT. Management had earlier indicated that they could add another S\$2-3bn worth of assets in the next 2-3 years. We see no reason to doubt them as they have been delivering.

· **Maintain BUY.** We maintain our BUY recommendation based on a yield-spread based target price of S\$2.32. We changed our valuation reference to yield spread as our DCF-based valuation does not justify a value above S\$2.12. (See next page). Our valuation assumes further acquisitions worth S\$670m in FY06. We advise investors to invest in AREIT for what it is - a low risk and stable income yielding stock.

BUY

S\$2.19

At a Glance

Price Target:
1-year S\$2.32

Stock Code:

Bloomberg: AREIT SP
Reuters: AEMN.SI

Sector: Property Trust

STI: 2,307.42

Reason for Report:
News

Distribution Revision:
unchg

Consensus EPU:
FY06 10.9 S cts
FY07 12.2 S cts

DBSV vs Consensus EPU (% variance):
FY06 -9.6%
FY07 +3.0 S cts

Principal Business

A-REIT is a publicly listed property trust with a focus on industrial real estate.

Forecasts and Valuation

FY Mar (\$m)	2004A	2005A	2006F	2007F
Revenue	66	129	246	346
Distribution income	46	84	160	230
DPU (\$ cts)	8.16	9.56	11.35	13.87
DPU Growth (%)	7.6	17.2	18.7	22.2
Distribtn Yield (%)	3.49	4.09	4.85	5.93
EPU (\$ cts)	7.27	8.54	9.85	12.57
PE (x)	32.2	27.4	23.7	18.6
Debt Ratio (%)	26%	26%	22%	23%
ROE (%)	7.2	7.1	5.7	6.0
NAV (\$)	1.24	1.23	2.09	2.08
P/NAV (x)	1.89	1.91	1.12	1.13

General Data

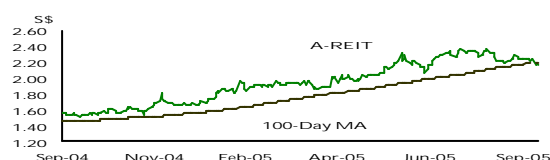
Issued Capital (m shrs)	1,164
Mkt Cap (\$m/US\$m)	2,351 / 1,422
Major Shareholders	
Ascendas (%)	17.5
Macquarie Goodman (%)	7.2
Free Float (%)	49
Avg Daily Vol ('000 shrs)	2,236

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	3.69	6	6	1
6 Mth	3.69	6	6	1
12 Mth	3.69	6	6	1
Market	3.59			
Sector	-			

Source: Bloomberg
Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy

Share Price Chart



Share Price Performance

	Share Price	Rel STI	Rel Sector
Past 1 mth	-2%	-3%	-5%
Past 3 mths	1%	-4%	-15%
Past 6 mths	15%	9%	-2%
Past 12 mths	42%	26%	6%

Kenji Kok (65) 63987963 kenji@dbsvickers.com

Highlights

- **How to value REIT?** Previously, we used DCF valuation to derive our target price. DCF is a sound methodology to value a company based on future cashflow discounted by the relevant cost of capital. We continue to believe that this is the best way to value a REIT, but the market has, rightly or wrongly, chosen yield as the preferred valuation metric. This method invariably generates a value higher than DCF valuation. It reminds us of the tech bubble days, when all traditional valuation methods were thrown out the window. We are inclined to think that we are not in a REIT bubble, because investors have different utility curves. So long as investors invest in REIT for what it is - a slow and steady income yielding stock – they should not be disappointed. As a defence against yield de-compression, it is prudent to select REITs that have visible DPU growth strategy.

Nevertheless, we will continue to show our DCF valuation in all our reports to contrast against the yield spread valuation that we adopted as a basis for our target price. Our target price is S\$2.32, based on the assumed average 10-year bond rate of 3.0%, and a spread of 190 bps (based on U.S. Industrial REIT yield spread).

Yield Spread Model

U.S. Industrial REIT Spread: 190 bps		DPU (cents)		Valuation (\$)	
Singapore 10-Year Bond Rate	+ 190 bps spread	FY06	FY07	FY06	FY07
3.60%	5.5%	11.35	13.87	\$2.06	\$2.52
3.40%	5.3%	11.35	13.87	\$2.14	\$2.62
3.20%	5.1%	11.35	13.87	\$2.23	\$2.72
3.00%	4.9%	11.35	13.87	\$2.32	\$2.83
2.80%	4.7%	11.35	13.87	\$2.41	\$2.95
2.60%	4.5%	11.35	13.87	\$2.52	\$3.08

DCF Valuation Model

FYE Mar (\$m)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Free Cash Flow	177	258	288	261	271	279	288	297	315	325	236	238
PV of CF	177	245	260	224	221	216	212	208	210	205	141	1,211
Terminal Value												2,018.3
Total PV of Cashflow	3,531											
No of Units	1,661	1,408	1,661	1,671	1,681	1,686	1,686	1,686	1,686	1,686	1,686	1,686
	\$2.12	\$0.13	\$0.15	\$0.16	\$0.13	\$0.13	\$0.13	\$0.13	\$0.12	\$0.12	\$0.12	\$0.08

WACC

Risk-free Rate of Return	Rf	3.00
Long Term Cost of Debt	Kd	3.00
Market Risk	Rp	11.00
Beta	B	0.40
Tax Rate	t	0.20
Target Debt to Equity	Wd	0.30
	We	0.70
Cost of Equity	Ke	6.20
Weighted Cost of Capital	Dr	5.24
Terminal Value Discount		7.5%

Source: DBS Vickers, Company

Summary Earnings Model
A-REIT - Income Statement

FYE Mar (\$m)	2004A	2005A	2006F	2007F
Total - Existing Properties	57.7	107.2	167.4	123.7
Expected S\$1.5bn New Acquisitions	0.0	0.0	36.3	123.5
Gross rental income	57.7	122.5	238.3	337.8
Other income	8.2	8.0	8.0	8.1
Gross Revenue	65.9	130.5	246.4	345.9
Property services fees	2.3	3.8	6.6	9.4
Property tax	3.2	7.4	15.0	22.3
Other operating expenses	10.1	21.7	34.2	42.6
Total Property Expenses	15.6	32.9	55.8	74.3
Net Property Income	50.3	96.1	190.6	271.6
Manager's fee	3.5	11.2	32.8	33.5
Trust expenses	0.8	1.2	1.7	1.7
Borrowing costs	3.3	8.4	17.3	27.7
Net Property Income before tax	42.6	75.2	138.8	208.7
Non-tax deductible expenses	2.9	8.9	21.1	21.5
Net Investment Income Available for Distribution	45.5	84.2	159.8	230.3
Units in issue (m)	707	1,161	1,656	1,666
Distribution per Unit (\$ cents)	8.16	9.56	11.35	13.87

Source: Company, DBS Vickers

As of 21 September 2005, the analyst and his / her immediate family do not hold positions in the securities recommended in this report.

DBS Vickers Securities (Singapore) Pte Ltd and its subsidiaries do not have a proprietary position in the securities recommended in this report as of 19 September 2005.

ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This document is published by DBS Vickers Research (Singapore) Pte Ltd ("DBSVR"), a direct wholly-owned subsidiary of DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") and an indirect wholly-owned subsidiary of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). The research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. DBSVR accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBS Vickers Securities Holdings Pte Ltd is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. DBSVR, DBSVS, DBS Bank Ltd and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, beneficially own a total of 1% or more of any class of common equity securities of the ARIET mentioned in this document. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBSVUSA, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the ARIET. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
Tel. 65-6533 9688, Fax: 65-6226 8048
Company Regn. No. 198600295W