October 22, 2021

AREIT Inc (AREIT PM)

Delivering the goods

BUY

Share Price	PHP 40.10
12m Price Target	PHP 44.00 (+10%)

REITs

Philippines

Best-in-class REIT; initiating with BUY

AREIT Inc. (AREIT) debuted as the first REIT in the Philippines in Aug'20. Starting with an initial 153k sqm of gross leasable area (GLA), AREIT has grown to 549k sqm of GLA as of Oct'21. We initiate coverage with BUY and DDM-based TP of PHP44.

Acquisitions to drive robust DPU growth

We forecast AREIT to deliver a 13.8% FY20-23E distribution per unit (DPU) CAGR due to new acquisitions, robust occupancy rates (99%) and healthy rental rate escalation (4% pa). The majority (64% of GLA) of AREIT's properties are Grade A office assets, which boast notable resilience amid the pandemic. AREIT likewise benefits from a quality base of tenants, mostly from the BPO sector, and a healthy lease expiration profile.

Long-term growth backed by sponsor

AREIT is backed by Ayala Land, Inc. (ALI PM, CP: PHP38.15, BUY, TP: PHP44.00). This ensures a healthy pipeline of potential asset infusions, providing further upside to our DPU estimates. AREIT's GLA is now thrice its size in YE20A, following the infusions of: (i) The 30th (75k sqm); (ii) the Laguna Technopark lots (98k sqm); and (iii) the 10 additional assets to be acquired via property-for-share swap (205k sqm) from ALI. We estimate ALI still has 944k sqm of office GLA that can be infused into AREIT.

DDM-based TP of PHP44

We value AREIT using DDM, applying a COE of 8.0%. We do not ascribe a terminal value to AREIT; instead, we discount projected distributions until the end of the land leases. Despite the stock's 37% rally YTD, it still offers a fairly attractive FY22E dividend yield of 5.0% and total return of 15%. Key downside risks are lower-than-expected rental escalation and greater-than-expected non-renewals and pre-terminations.

FYE Dec (PHP m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,563	1,952	3,105	4,299	4,471
Net property income	1,318	1,592	2,474	3,535	3,792
Core net profit	1,452	1,453	2,383	3,040	3,277
Core EPU (PHP)	1.48	1.46	2.01	2.01	2.17
Core EPU growth (%)	20.0	(2.0)	37.9	0.3	7.8
DPU (PHP)	1.91	1.46	1.71	1.99	2.14
DPU growth (%)	54.4	(23.8)	17.8	15.9	7.9
P/NTA (x)	na	2.4	3.5	2.2	2.3
DPU yield (%)	na	5.0	4.3	5.0	5.3
ROAE (%)	13.6	12.6	16.0	13.7	12.3
ROAA (%)	12.3	10.9	11.2	8.8	8.0
Debt/Assets (x)	0.00	0.00	0.26	0.24	0.26
Consensus DPU	-	-	1.90	1.95	1.79
MKE vs. Consensus (%)	-	-	(10.0)	1.9	19.5

Company Description

AREIT Inc owns and invests in income-producing commercial portfolio of office, retail and hotel properties

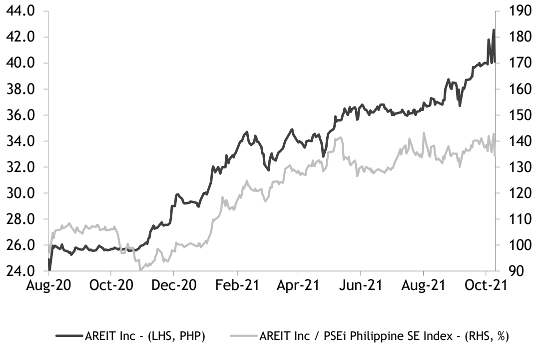
Statistics

52w high/low (PHP)	42.55/25.55
3m avg turnover (USDm)	0.5
Free float (%)	34.0
Issued shares (m)	1,509
Market capitalisation	PHP60.5B
	USD1.2B

Major shareholders:

Ayala Land Inc	44.4%
Capital Group	3.7%
Invesco Ltd.	2.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	11	56
Relative to index (%)	(1)	(2)	34

Source: FactSet

ESG@MKE
Tear Sheet Insert

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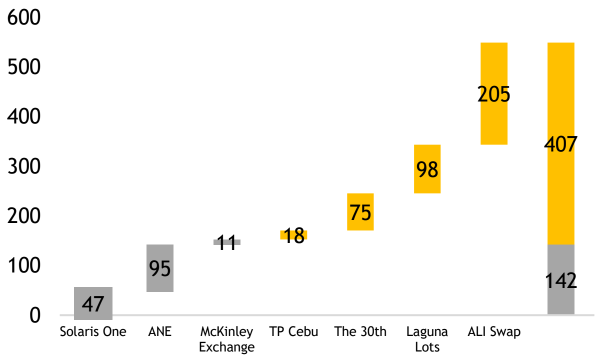
Value Proposition

- AREIT is the commercial REIT vehicle of leading property developer Ayala Land, Inc (ALI PM).
- Of its 549k sqm, 348k sqm are office GLA, which has proven resilient amid the pandemic.
- Properties are strategically located in leading commercial centres in Metro Manila and key provinces. All office properties are accredited by the Philippine Economic Zone Authority (PEZA).
- Its tenant base is diversified and composed of quality names, mostly in the traditional and BPO sectors.
- Dividend distributions should remain stable, given a healthy lease expiration profile (WALE of 9 years) and adequate protections in AREIT's lease agreements with tenants.
- The sponsorship of ALI ensures long-term growth prospects, as it provides a healthy pipeline of infusions. Since its IPO, AREIT has more than tripled the size of its portfolio.

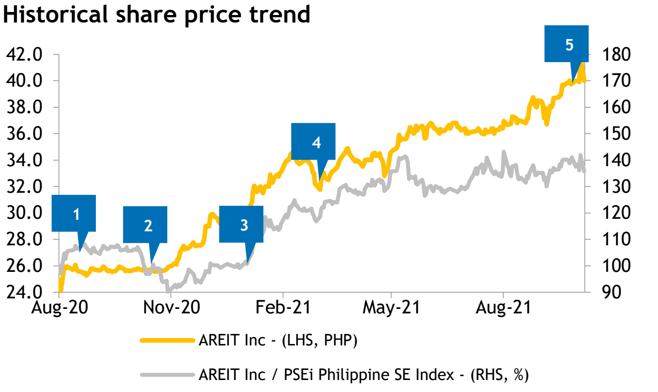
YE21 GLA is 549k sqm, more than triple its size at IPO



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. AREIT lists on the Philippine Stock Exchange at PHP27.
2. On 23 Oct 2021, AREIT announces the acquisition of The 30th in Pasig City.
3. On 26 Jan 2021, AREIT announces the acquisition of the land parcels in Laguna Technopark occupied by Integrated Micro-electronics, Inc (IMI PM, Not Rated).
4. On 16 Mar 2021, AREIT announces its plan to acquire 10 properties via a PHP15.5b property-for-share swap with ALI.
5. On 11 Oct 2021, the Securities and Exchange Commission approved the PHP15.5b property-for-share swap with ALI.

Financial Metrics

- Our 13.8% FY20-23E DPU CAGR forecast for AREIT is mainly due to contributions from its new acquisitions.
- We expect overall occupancy rate and lease escalation rate to remain steady at 99% and 4% pa, respectively. This should underpin a 32% FY20-23E revenue CAGR.
- Incremental management fees arising from acquisitions will put temporary pressure on EBITDA margins, which we expect to hover at 78-81% in FY21/22E, before normalizing to 83-84% in FY23E.
- AREIT should be able to distribute 100% of adjusted funds from operations or 120-140% of net income through FY23E.
- Our FY21E ROE forecast of 13.7% is above the 8.2% average ROE of ASEAN REITs.

Swing Factors

Upside

- Occupancy ramp-up for properties with below 100% occupancy (eg. Vertis North), driven by demand from BPOs.
- Greater-than-expected lease escalation rates.
- Value-accretive acquisitions. We estimate ALI still has 944k sqm of office GLA that can be infused into AREIT.

Downside

- Higher-than-expected vacancies, especially among smaller tenants, due to prolonged macroeconomic weakness.
- Greater-than-expected degree of non-renewals and pre-terminations.
- Lower-than-expected lease escalation rates.

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Risk Rating & Score[1]	Not Rated
Score Momentum[2]	NA
Last Updated	NA
Controversy Score[3]	NA

Business Model & Industry Issues

- AREIT contributes to six United Nations Sustainability Goals: Good Health and Well-being (SDG3); Industry Innovation and Infrastructure (SDG9); Life on Land (SDG15); Clean Water and Sanitation (SDG6); Responsible Consumption and Production (SDG12); and Climate Action (SDG13).
- AREIT has largely aligned itself with the ESG principles and practices of its sponsor, Ayala Land (ALI). In particular, AREIT adopted ALI's four sustainability focus areas: (1) site resilience; (2) pedestrian mobility and transit connectivity; (3) resource efficiency; and (4) local economic development. AREIT also aims to reduce the carbon emission of its buildings and contribute to ALI's carbon neutrality programme.
- We think AREIT arguably has a lower degree of exposure to material 'S' issues relative to ALI, as it does not own the land in which its properties are situated and does not participate in land acquisitions.
- AREIT is exposed to governance risk relating to related party transactions (RPTs). This is mitigated, however, by the presence of a Related Party Transactions Committee and the adoption of the RPT policy of the Securities and Exchange Commission. RPTs are subject to the approval of the RPT Committee, which is composed of only independent directors.

Material E issues

- Implements measures to promote resource efficiency in its properties. According to AREIT, the measures are in place "to promote the conscientious use of energy and water and the management of waste."
- Supports ALI's goal of carbon neutrality by FY22. Total net emissions in 2020 reached 7,565 t-CO2e, a 12% reduction due to lower electricity and fuel use.
- Aims to shift a greater proportion of its properties to renewable energy sources. As of FY20, 35% of purchased electricity came from renewable sources. Among the properties, Solaris One has been purchasing electricity from renewable sources through a power purchase agreement since 2017.
- Has adopted a circular waste management model, in line with ALI's practice. As of end-FY20, 7,692 kg of waste (2% of total waste generation) was sent to recyclers.
- Electricity intensity in AREIT's buildings decreased from 157.47 kWh/sqm to 125.48 kWh/sqm in FY20.
- Water intensity in AREIT's buildings decreased from 1.74 m3/sqm to 1.51 m3/sqm in FY20.

Material S issues

- AREIT contributes to local employment through its tenants and service providers. As of end-FY20, AREIT has provided employment to 21,290 tenant employees and 136 service providers.
- Vendors, service providers and suppliers are audited by an internal division to ensure compliance to applicable law. Suppliers are required to fill up a "Green Metrics" form to verify environmental and social practices.
- Healthy and safety protocols, in line with local government mandates, are implemented in all properties (e.g. personal protective equipment, temperature checks at entry points).
- Customer satisfaction surveys are done regularly, with the AREIT properties' average score at 96% in FY20.

Key G metrics and issues

- AREIT's Board of Directors is composed of seven members, of which four are non-executive (57%) and three are non-executive and independent (43%). The REIT Law requires at least 33% of the Board to be independent directors.
- The Committees for: (i) Related Party Transactions Review; (ii) Corporate Governance and Nomination; and (iii) Personnel and Compensation are composed of only independent directors.
- AREIT has a policy of ensuring that Related Party Transactions (RPT) are conducted at arm's length. 18% of AREIT's FY20 revenue came from affiliates and other related parties.
- In 2020, the Related Party Transactions Committee adopted the RPT policy of the Securities and Exchange Commission. It reviewed and approved the acquisitions of Teleperformance Cebu, The 30th and the Laguna Technopark lots.
- The positions of Chairman and CEO are held by two different individuals.
- Each independent director receives a fixed per diem of PHP40k for every board meeting attended and a fixed per diem of PHP20k for every committee meeting attended. Gross remuneration for independent directors amounted to PHP960k in FY20 or 0.08% of net income.
- Voting structure is single class, with each common share of AREIT entitled to one vote.
- All officers of AREIT are seconded from ALI and receive no compensation from AREIT.
- AREIT has a whistle-blower officer that can be contacted via SMS, e-mail and face-to-face meetings.
- In Mar 2021, AREIT announced it will be acquiring 10 properties from ALI via property-for-share swap valued at PHP15.5b. This required AREIT to increase its authorized capital stock from PHP11.7b to PHP29.5b. The transaction was subject to the approval of AREIT shareholders. The pricing of the transaction (PHP32 per share) was validated by a third-party fairness opinion.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Investment thesis

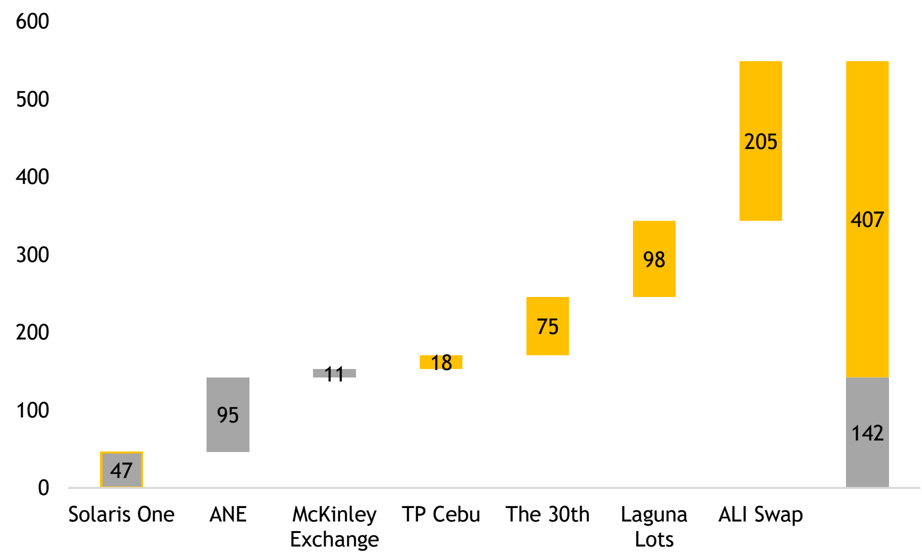
AREIT Inc. (AREIT) is the commercial REIT vehicle of Ayala Land, Inc. (ALI PM, CP: PHP38.15, BUY, TP: PHP44.00). We believe AREIT is primed to deliver robust DPU growth as it benefits from: (i) the strategic locations of its assets; (ii) its exposure to the resilient office space; (iii) a tenant base that is skewed towards the BPO sector, which is projected to grow by 3.2-5.5% in the next two years; and (iv) PEZA accreditations for all of its properties. These factors, alongside a healthy lease expiration profile and adequate protections for rent collections, should keep dividend distributions stable over the medium term.

1.1 Portfolio of quality assets

1.1.1 Best-in-class portfolio

AREIT has accumulated 549k sqm of GLA across 16 properties. All of AREIT's office buildings are Grade A, which KMC Savills defines as "top of the line" and the "location of the most sought-after office spaces." With the exception of McKinley Exchange, the buildings of AREIT's properties are owned, while the land is subject to long-term leases with its sponsor ALI. The building of McKinley Exchange is under a long-term lease with ALI until FY54.

Fig 1: Evolution of AREIT's GLA (000s sqm)



Source: Company disclosures

AREIT has grown its portfolio by more than three-fold from its "day one" size of 153k sqm.

By acquiring assets from its sponsor, ALI, AREIT has tripled its asset base from its "day one" portfolio at listing:

- **Teleperformance Cebu (18k sqm):** Teleperformance Cebu is a 12-storey office building with a prime location in Cebu IT Park. It was acquired in Sep 2020 for PHP1.7b, using the proceeds from AREIT's primary offer.
- **The 30th (75k sqm):** The 30th is a mixed-use development with 48k sqm of office GLA and a 28k sqm retail podium. It was acquired in Nov 2020 for PHP5.2b at an implied cap rate of 6.1%.

- **Laguna Technopark lots (98k sqm):** AREIT acquired the land parcels in Laguna leased to Integrated Micro-electronics, Inc. (IMI PM, CP: PHP8.70, Not Rated) from its affiliate Technopark Land, Inc. The acquisition cost PHP1.1b, implying a cap rate of 6.3%.

- **Property-for-share swap assets (205k sqm):** In Mar 2021, AREIT announced it identified 10 assets to be infused from ALI via property-for-share swap valued at PHP15.5b. In exchange for the assets, ALI subscribed to 483k primary common shares of AREIT, effectively raising ALI's ownership in AREIT to 66% (from 51%). The transaction was approved by AREIT's shareholders during its Annual Stockholders' Meeting in Apr 2021. The transaction reached financial close this Oct 2021.

Fig 2: Summary of AREIT's portfolio

Property	Location	Type*	GLA (sqm)	1H21 Occupancy Rate (%)	Year Lease Ends	Tenant Sectors	Major Tenants
"Day One" Portfolio							
Solaris One	Makati CBD	Office	46,768	100.0	2048	BPO	Shell Shared Services, ANZ
Ayala North Exchange	Makati CBD	Office	95,300	98.0	2058	BPO, Traditional	Concentrix, Oracle, BPI
McKinley Exchange	Makati CBD	Office	10,688	99.0	2054	BPO	Telus
Post-IPO Acquisitions							
Teleperformance Cebu	Cebu City	Office	18,092	100.0	2051	BPO	Teleperformance
The 30th	Ortigas CBD	Office	74,704	99.0	2056	BPO, Traditional	PWC, Transcom
Laguna Technopark Lots	Laguna	Industrial	98,179	100.0	Freehold	Industrial	IMI
Acquired via Property-for-Share Swap with ALI							
Vertis North	Quezon City	Office	164,628	97.0	2042	BPO	Google, Teleperformance
One and Two Evotech	Sta. Rosa, Laguna	Office	23,092	100.0	2040	BPO	Concentrix, IBM
Bacolod Capital Corporate	Bacolod	Office	11,313	100.0	2062	BPO	ARB
Ayala Northpoint Technohub	Talisay City	Office	4,654	100.0	2050	BPO	RMS
BPI-Philam Life Makati	Makati CBD	Office	1,072	100.0	Freehold	Traditional	Oberthur Card Systems
BPI-Philam Life Alabang	Alabang	Office	551	100.0	Freehold	Traditional	Amaia
			549,041	**98.9**			

Source: Company

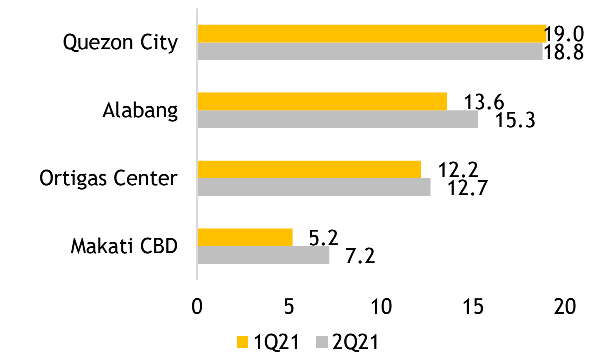
Notes:

1. *While primarily office assets, Solaris One, Ayala North Exchange, McKinley Exchange, Teleperformance Cebu, The 30th, and Vertis North have retail components.*
2. *For the purposes of this report, our use of the term "portfolio" pertains to AREIT's aggregate portfolio, including the property-for-share swap assets.*

1.1.2 Strategic locations in leading commercial centres

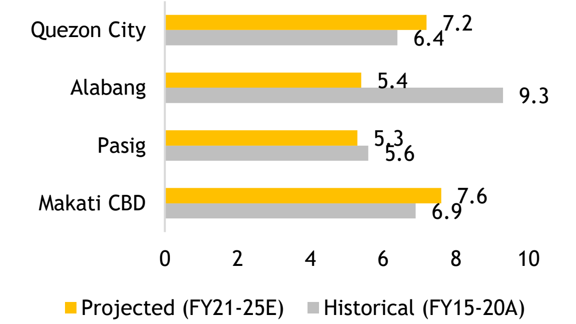
AREIT's properties are strategically located in leading commercial centres with healthy office space demand and above-average lease rates. 157k sqm (28.6%) of AREIT's portfolio is in Makati CBD, where vacancy rates have remained low despite the pandemic (Fig 3) and lease escalation is expected to be robust over the next five years (Fig 4).

Fig 3: Vacancy rates (%)



Source: Colliers Philippines

Fig 4: Average lease escalation p.a. (%)



Source: Jones Lang LaSalle

AREIT also has exposure in key areas outside of Metro Manila; in terms of GLA, 155k sqm (or 28.3% of the total GLA) is in Cebu, Negros and Laguna. Over the medium term, we believe these assets are well-placed to benefit from the expansion of BPOs' regional satellite locations. This is supported by the growing talent pool in the region and cheaper average monthly lease rates at PHP400-700/sqm (vs. PHP700-1,000/sqm in Metro Manila), based on industry data.

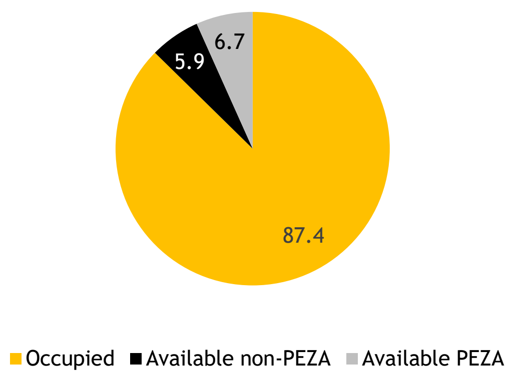
1.1.3 PEZA accreditations for all office buildings

Enterprises registered with the Philippine Economic Zone Authority (PEZA) may be entitled to fiscal incentives and the passage of the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act) in Mar 2021 has re-affirmed these incentives. These incentives include sunset provisions of 4-9 years on tax perks (eg. preferential tax rates). The longer time horizon on tax perks may drive tenants to opt for longer lease terms on PEZA-accredited office space.

The supply of PEZA-accredited office space is limited. Only 848k sqm (53.0%) out of 1.6m sqm PEZA-accredited office GLA are available (Colliers) and of the 1.1m sqm of new office space expected to become available from Jul 2021 to Dec 2022, only 401k sqm (36.1%) has been PEZA-proclaimed.

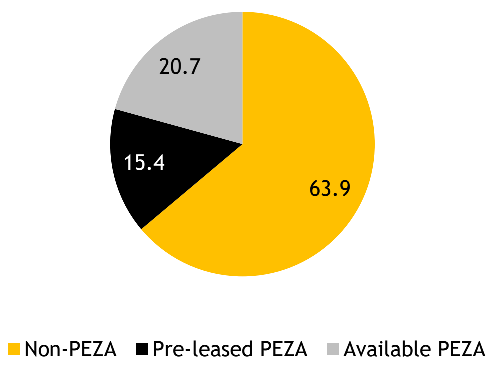
Except for the lots in The Laguna Technopark, which is an industrial facility, all 15 office properties in AREIT's portfolio are PEZA-accredited and the scarcity of PEZA-accredited office space should keep AREIT's occupancy rates high and rental rates elevated.

Fig 5: Existing Metro Manila office supply (1H21)



Source: Colliers Philippines; Note: Total office supply is 12.7m sqm.

Fig 6: Expected additions to Metro Manila office supply (1H21-2H22)



Source: Colliers Philippines; Note: Total expected new office supply is 1.1m sqm.

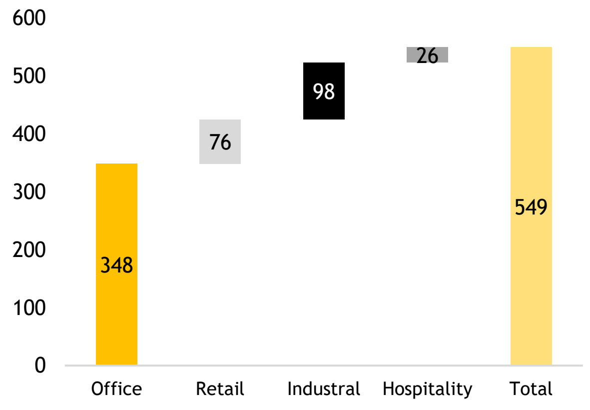
1.2 Resilient all-around

1.2.1 Portfolio led by office assets

AREIT's portfolio is largely composed of office (63.5% of GLA) and industrial (17.9%) assets, which have remained largely resilient despite the pandemic due to uninterrupted operations amid quarantine restrictions.

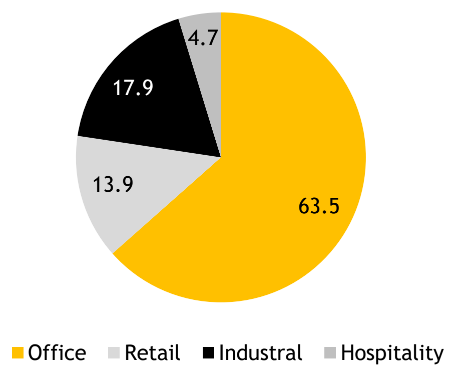
Even as we expect a hybrid model, with both onsite and remote work, to prevail in the long run, it would likely only be implementable for select operations. The country's underdeveloped connectivity infrastructure should necessitate our predominantly service-based economy to still have physical presences such that while there could be a change in tenant mix, we expect demand for office space to remain.

Fig 7: AREIT portfolio by property type (000s sqm)



Source: Company

Fig 8: AREIT portfolio by property type (%)



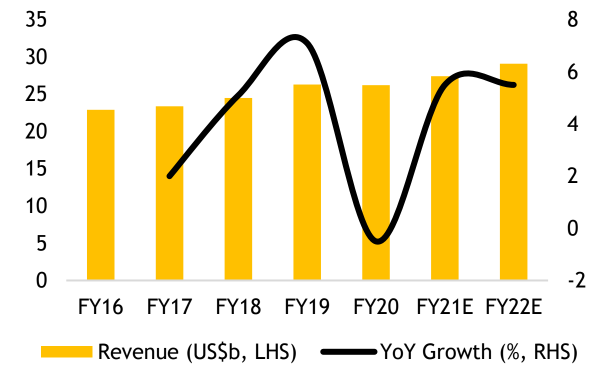
Source: Company

We do not expect this composition to materially change over the near term as we expect AREIT to focus on adding more resilient office and industrial assets, which meets AREIT's investment criteria of having "stable occupancy, tenancy and income operations".

1.2.2 Diversified and quality tenant base

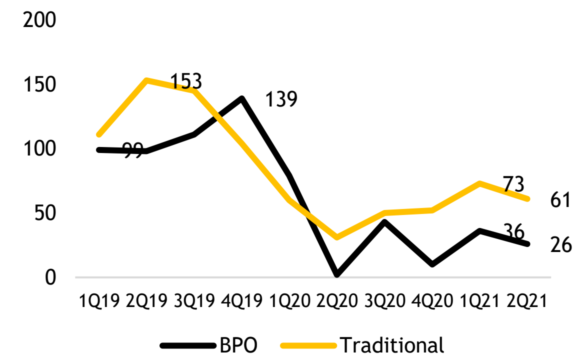
AREIT's tenant base is skewed towards the BPO and traditional (corporate office headquarters) sectors, which we estimate account for 63.5% of GLA. BPOs were classified by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) as "essential" in nature and allowed to operate at full capacity throughout the pandemic. According to the IT and Business Process Association Philippines (IBPAP), the BPO industry is expected to grow by 3.2-5.5% over the next two years (Fig 8). This should position BPOs, alongside traditional offices, as key drivers of office space demand over the medium term.

Fig 9: IBPAP forecasts the Philippine BPO industry may grow by 3.2-5.5% p.a. through FY22E



Source: IT and Business Process Association (IBPAP) Philippines

Fig 10: BPO and traditional segments seeing improving level of transactions (000s sqm)



Source: Colliers Philippines

AREIT has zero exposure to the more volatile Philippine offshore gaming operator sector. Its tenants are large, quality corporates with long track records. No single tenant accounts for more than 30% of AREIT's total GLA as of 1H21.

AREIT's largest tenant is its affiliate under the Ayala group, IMI, which occupies 98k sqm or 28.8% of total GLA as of 1H21. For office, no tenant accounts for more than 10% of GLA as of 1H21.

Fig 11: AREIT's top 10 tenants by GLA

Tenant	Type	GLA (sqm)	% of Total GLA
Integrated Microelectronics, Inc.	Traditional/HQ	98,179	28.8
Shell Shared Services (Asia), B.V.	BPO	33,073	9.7
North Eastern Commercial Corporation	Traditional/HQ	26,833	7.9
Makati North Hotel Ventures, Inc. (Seda Residences Makati)	Hospitality	26,034	7.6
Concentrix CVG Philippines, Inc.	BPO	24,280	7.1
TPPH-FHCS, Inc.	BPO	17,682	5.2
Oracle Netsuite (Philippines), Inc.	BPO	10,099	3.0
Telus International (Philippines), Inc.	BPO	9,633	2.8
Bank of the Philippine Islands	Traditional/HQ	8,480	2.5
PricewaterhouseCoopers Service Delivery Centre (Manila) Limited	BPO	7,987	2.3
		262,280	**76.8**

Source: Company (as of 1H21, prior to infusion of property-for-share swap assets)

1.2.3 Leases secured by adequate safeguards

AREIT has built in adequate safeguards in its lease agreements, which include:

- Advanced cash deposit equivalent to 6 months of rental payment from: (i) 3 months equivalent of security deposit; and (ii) 3 months equivalent of advanced rental payment;

- Pre-termination clause is only applicable to specific circumstances (eg. business closing, extreme downsizing, etc). If applicable, tenants should provide pre-termination notice 6 months prior to the termination date and is still liable to pay rent for the unexpired portion of the lease;

The lease structure of AREIT's hospitality and retail contracts also include safeguards such as:

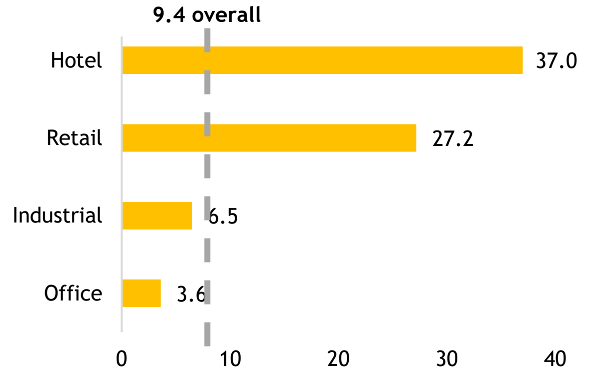
- The serviced apartments of Ayala North Exchange, Makati North Hotel Ventures, Inc. only offer long-term lease arrangements; and

- Guaranteed fixed lease payments from ALI for the retail components of The 30th and Vertis North

1.2.4 Healthy lease expiration profile

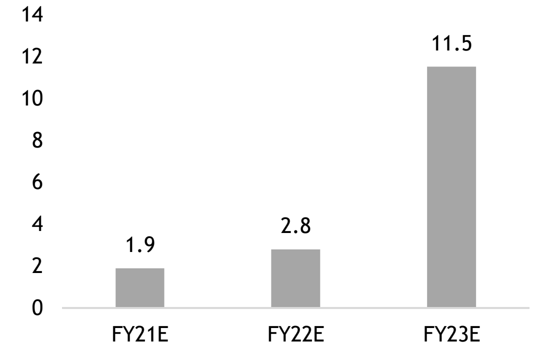
AREIT's weighted average lease expiry (WALE) for its aggregate portfolio stands at c. 9 years (Fig 11), which is more than double the average WALE of its peer REITs in the Philippines of c. 4 years. Maturing leases for FY21 and FY22 are also marginal at 2% and 3% of total GLA, respectively (Fig 12).

Fig 12: AREIT's weighted average lease expiry (years), by segment



Source: Company
Note: Figures based on AREIT's 1H21 disclosures, which have yet to include the 10 property-for-share swap assets.

Fig 13: Expiring leases amount to only 16.2% of AREIT's total GLA over the next three years

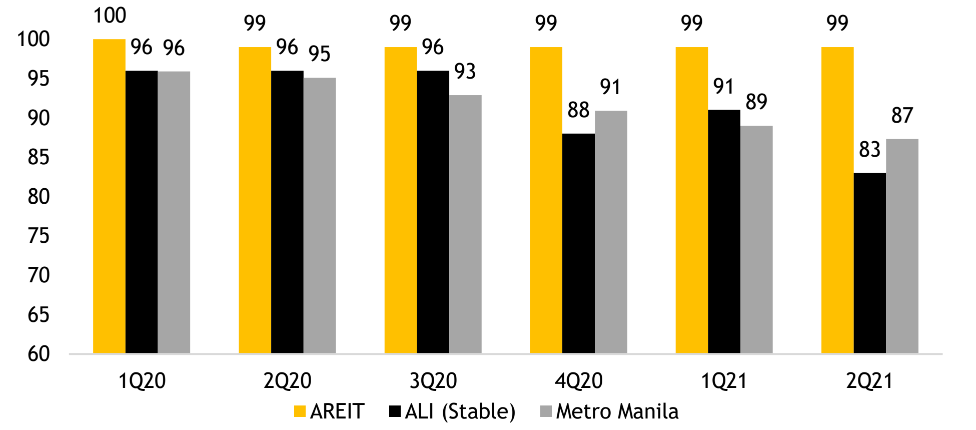


Source: Company
Note: Figures based on AREIT's 1H21 disclosures, which have yet to include the 10 property-for-share swap assets.

1.2.5 Occupancy levels affirm resilience

AREIT's office occupancy rate of 99% has consistently outperformed the occupancy rates of the office portfolio of ALI and office spaces in Metro Manila, which hovered at 87-96% from 1Q20 to 2Q21. This outperformance is likely the result of AREIT's strategic locations, PEZA accreditations and long-term contracts, which we expect to be sustained over the long term.

Fig 14: AREIT occupancy consistent at 99%, above sponsor's and the industry's



Source: Company, Colliers Philippines

ALI's stable occupancy rate excludes the impact of new office launches on occupancy.

1.3 Long-term growth backed by sponsor

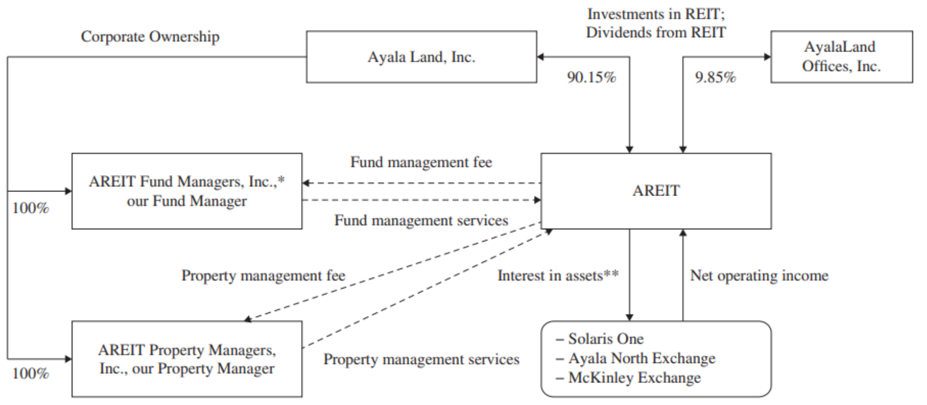
1.3.1 REIT structure

As a REIT, AREIT enjoys the backing of its sponsor, ALI, which boasts a strong track record in property development given its 33 years of experience in real estate and its diversified portfolio of retail, office, industrial, hospitality and residential developments. From this wealth of expertise, ALI is the top choice to run and manage AREIT's portfolio of assets, in our view:

- **AREIT Fund Managers, Inc.:** A fully-owned subsidiary of ALI, which implements proactive strategies for asset management, acquisitions and disposals.

- **AREIT Property Managers, Inc.:** A fully-owned subsidiary of ALI, which supervises day-to-day operations (eg. billing, maintenance), formulates strategies to minimize vacancies and negotiates lease contracts.

Fig 15: AREIT's structure



Source: Company

AREIT Fund Managers, Inc. and AREIT Property Managers, Inc. receive quarterly fees from AREIT in exchange for management services of the properties equivalent to:

Fig 16: AREIT fund management fee and property management fee structure

	Criterion
Fund Management	0.1% of deposited property value for the relevant period
	+ 3.5% of EBITDA before management fees and interest expense on lease liabilities
	+ 1.0% of acquisition price for every acquisition made
	+ 0.5% of sales price for every acquisition made
Property Management	3.0% of gross rental income and interest income from finance lease
	+ 2.0% of EBITDA before management fees and interest expense on lease liabilities

Source: Company

1.3.2 Upside risk from potential infusions

We believe ALI's most strategic and most bankable benefit to AREIT is its pipeline of potential asset infusions.

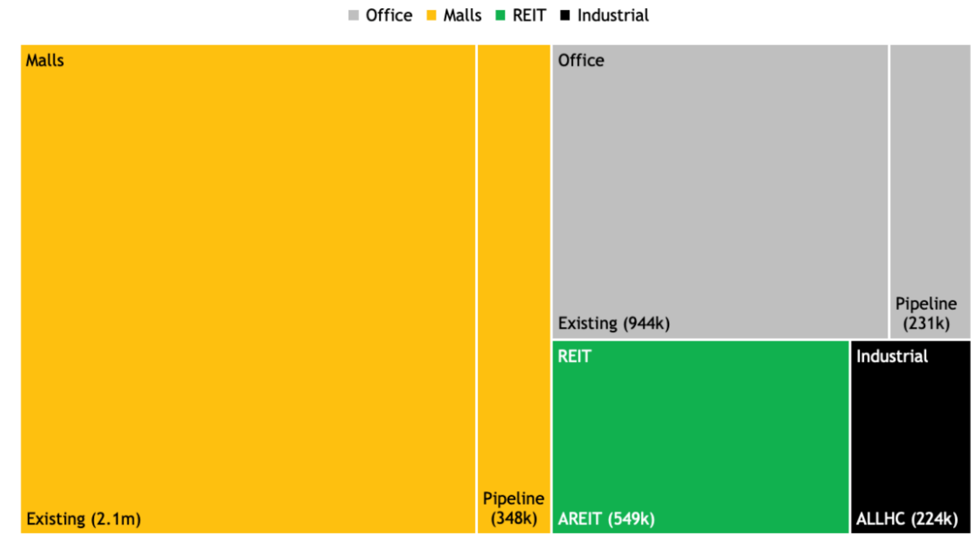
Fig 17: AREIT's investment criteria for properties

	Criterion
1	Be located in a prime location in either Metro Manila or other key provinces in the Philippines
2	Be primarily (but not exclusively) focused on commercial properties
3	Have stable occupancy, tenancy and income operations

Source: Company

ALI offers a sizeable commercial asset base that qualifies to be infused into AREIT. We estimate ALI still has 3.8m sqm of GLA in its commercial leasing portfolio that meets AREIT's investment criteria, even after carving out AREIT's 549k sqm of GLA. Particularly for the office portfolio, ALI still carries 1.3m sqm and has 231k sqm in the pipeline.

Fig 18: ALI has 3.8m sqm of "REIT-able" assets that can be folded into AREIT



Source: Company, Maybank Kim Eng

We estimate ALI has 3.8m sqm of GLA in its commercial leasing portfolio that can be infused into AREIT. We expect the immediate pool of infusions to come from the remaining 944k of existing office GLA left with ALI.

ALI's office assets are likely to be the primary candidates for AREIT infusions given their resilience, while industrial assets are also attractive, especially with the development of e-commerce. We do not expect retail assets to be folded into AREIT in the near term as it currently fails to meet AREIT's third investment criteria on income stability.

We also do not rule out acquisitions of non-ALI assets or assets from third parties, though we expect AREIT to prioritize infusions from ALI, its sponsor.

1.3.3 AREIT likely to maximize share swap tax benefits

We expect AREIT to maximize property-for-share swaps as a route for future infusions, similar to its most recently announced transaction with ALI (Fig 2, *acquired via Property-for-Share Swap with ALI*). According to the Securities and Exchange Commission Memorandum Circular No. 1-2020 and Bureau of Internal Revenue Revenue Regulations No. 3-2020, a transfer of a property to a REIT in exchange for equity shares is considered a "tax-free exchange" and is exempt from 12% value-added tax.

This route is only possible for minority shareholders and of AREIT's current shareholders, only ALI is currently eligible. We note, however, that post the execution of the announced property-for-share swap, which would raise ALI's ownership in AREIT to 66%, AREIT would need to do a follow-on-offer or ALI would need to sell secondary AREIT shares, before it can be eligible again for another tax-free exchange.

2. Financials

2.1 1H21 earnings recap

AREIT's 1H21 earnings rose by 29% YoY to PHP1.3b due to stable occupancy rates in its properties, 3-5% rental escalation and contributions from The 30th and the Laguna Technopark Lots.

- Revenue grew by 50% YoY, with EBITDA growth slightly lower at 40% due to higher management fees.

- Occupancy rate remained stable at 99%, affirming the resilience of AREIT's office-heavy portfolio amid re-imposed strict quarantine measures.

- Worth noting is that rental discounts for retail tenants stood at only PHP25.4m, or 2% of 1H21 revenue. No rental waivers or discounts were given to office tenants.

- AREIT changed its accounting method for valuing investment properties from the cost method to fair value method to better reflect the market value of its properties and align with the practices of global REITs. The change is retroactive beginning 1 Jan 2021. Excluding the effects of fair value accounting, 1H21 net income growth would have been 54%.

Fig 19: AREIT 1H21 and 2Q20 earnings summary

	1H20	1H21	% YoY	2Q20	2Q21	% YoY
Revenue	911	1,365	*49.8*	461	685	*48.6*
EBITDA	755	1,056	*39.9*	388	526	*35.6*
Operating income	755	1,056	*39.9*	334	625	*87.1*
Income before income tax	1,247	1,315	*5.5*	350	912	*5.5*
Net income after tax	1,017	1,315	*29.3*	288	912	*29.3*
Net income after tax (before FV change)	652	1,007	*54.4*			
Adjusted funds from operations		**941**			**471**	

Source: Company, Maybank Kim Eng

2.2 FY21/22E core earnings growth of 36%/37% YoY

We forecast AREIT to post FY21/22E revenues of PHP3.1/4.3b, up 59%/39% YoY, driven by the incremental contributions from its new acquisitions. FY21E margins are likely to be weighed down by one-time fees and costs arising from this year's acquisitions but should stabilize at 83-84% starting FY22E.

This translates to FY21/22E core earnings of PHP1.7/2.3b, up 36%/37% YoY. Our core earnings calculation excludes the one-time impact of AREIT's adoption of fair value accounting (PHP308m).

Fig 20: Earnings forecasts (FY21-23E)

PHP m	FY20A	FY21E	% YoY	FY22E	% YoY	FY23E	% YoY	Assumptions
Revenue	**1,952**	**3,105**	59.1	**4,299**	38.5	**4,471**	4.0	*Reflects Oct 2021 financial close for PHP15.5b property-for-share swap with ALI, full-year contribution in FY22*
Direct operating expenses	*(360)*	*(630)*	*75.2*	*(764)*	*21.2*	*(679)*	*-11.1*	*Expecting management fees to reach 6-8% of revenue in FY21/22E due to fund management fees relating to acquisitions*
Gross profit	**1,592**	**2,474**	55.4	**3,535**	42.9	**3,792**	7.3	
Gross profit margin (%)	*81.6*	*79.7*		*82.2*		*84.8*		
Cash operating expenses	*(49)*	*(52)*	*4.3*	*(53)*	*2.5*	*(54)*	*3.0*	
EBITDA	**1,542**	**2,423**	57.1	**3,482**	43.7	**3,738**	7.4	
EBITDA margin	*79.0*	*78.0*		*81.0*		*83.6*		
Depreciation and amortization	*(226)*	*(408)*	*80.9*	*(760)*	*86.4*	*(941)*	*23.8*	
EBIT	**1,317**	**2,015**	53.0	**2,721**	35.1	**2,797**	2.8	
EBIT margin (%)	*67.5*	*64.9*		*63.3*		*62.5*		
Interest expense	*(65)*	*(346)*	*428.2*	*(446)*	29.0	*(464)*	4.1	*Based on AREIT's indicative interest rate of 4% p.a. for two-year retail bonds*
Interest income	79	1	*-98.5*	3	193.8	3	-4.2	
Associates	-	-	*n.a.*	-	n.a.	-	n.a.	
Others	4	305	*8231.9*	-	-100.0	-	n.a.	
Pre-tax profit	**1,334**	**1,975**	48.1	**2,279**	15.4	**2,336**	2.5	
Tax expense	*(107)*	-	*-100.0*	-	*n.a.*	-	*n.a.*	
Effective tax rate (%)	*8.0*	-		-		-		
Net income	**1,227**	**1,975**	61.0	**2,279**	15.4	**2,336**	2.5	
Adjustments	-	(308)	*n.a.*	-	-100.0	-	*n.a.*	*FY21E includes PHP308m of adjustments due to adoption of fair value accounting*
Core income	**1,227**	**1,667**	35.9	**2,279**	36.7	**2,336**	2.5	

Source: Company, Maybank Kim Eng

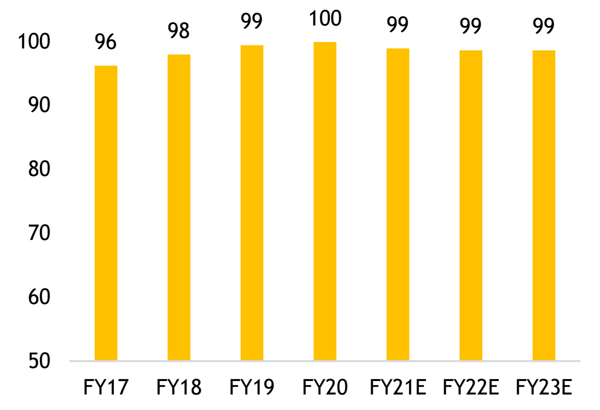
2.2.1 Occupancy rates to remain steady

We expect overall occupancy rates to remain steady at 99% in FY21/22E (1H20/FY20A: 99%) given AREIT's predominantly office-based, contract-locked portfolio and the quality of its tenant base. We note that robust occupancy is further supported by captive opportunities created by AREIT's base of affiliate tenants (eg. ALI, IMI, Bank of the Philippine Islands). Our base case assumption factors in a flat FY21/22E 97% occupancy rate for Vertis North (165k sqm; 30% of total office GLA), indicating some upside to our forecasts.

2.2.2 Rental rate escalation of 4% p.a.

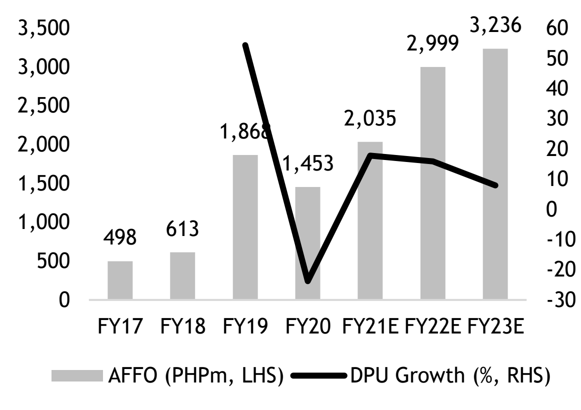
We imputed an escalation rate of 4% pa for office space for FY21-23E, which is within range of the 3-5% escalation rates in AREIT's current contracts. We see limited impact from AREIT's retail portfolio as it accounts for just 76k sqm or 14% of GLA, with the retail spaces of The 30th and Vertis North (67k sqm or 12.1% of GLA) having fixed payments from ALI. AREIT's hospitality portfolio is likewise covered by a fixed lease agreement.

Fig 21: We expect AREIT's occupancy to remain stable at 99%...



Source: Company, Maybank Kim Eng

Fig 22: Robust occupancy, 4% p.a. rent escalation, infusions to drive 13.6% DPU CAGR



Source: Company, Maybank Kim Eng

Fig 23: Key operational forecasts

	FY21E	FY22E	FY23E	FY24E	FY25E
Gross revenue (PHP m)					
Solaris One	564	586	610	634	660
Ayala North Exchange	1,123	1,169	1,219	1,270	1,324
McKinley Exchange	115	119	124	129	134
Teleperformance Cebu	147	153	159	166	172
The 30th	596	671	696	723	751
Laguna Technopark Lots	71	82	86	90	95
Vertis North	399	1,239	1,287	1,337	1,389
One and Two Evotech	52	162	169	175	182
Bacolod Capital Corporate Center	23	73	76	79	82
Ayala Northpoint Technohub	8	24	25	26	27
BPI-Philam Life Makati	4	13	14	15	15
BPI-Philam Life Alabang	2	6	6	7	7
	3,105	**4,299**	**4,471**	**4,651**	**4,838**
Occupancy rate (%)					
Solaris One	100.0	100.0	100.0	100.0	100.0
Ayala North Exchange	98.0	98.0	98.0	98.0	98.0
McKinley Exchange	99.0	99.0	99.0	99.0	99.0
Teleperformance Cebu	100.0	100.0	100.0	100.0	100.0
The 30th	99.0	99.0	99.0	99.0	99.0
Laguna Technopark Lots	100.0	100.0	100.0	100.0	100.0
Vertis North	97.0	97.0	97.0	97.0	97.0
One and Two Evotech	100.0	100.0	100.0	100.0	100.0
Bacolod Capital Corporate Center	100.0	100.0	100.0	100.0	100.0
Ayala Northpoint Technohub	100.0	100.0	100.0	100.0	100.0
BPI-Philam Life Makati	100.0	100.0	100.0	100.0	100.0
BPI-Philam Life Alabang	100.0	100.0	100.0	100.0	100.0
	98.9	**98.6**	**98.6**	**98.6**	**98.6**
Gross monthly revenue per sqm (PHP)					
Solaris One	1,005	1,045	1,087	1,130	1,175
Ayala North Exchange	1,002	1,043	1,088	1,134	1,182
McKinley Exchange	903	938	975	1,013	1,053
Teleperformance Cebu	679	705	733	763	793
The 30th	732	756	785	815	846
Laguna Technopark Lots	66	69	73	77	80
Vertis North	624	646	672	698	725
One and Two Evotech	563	585	609	633	659
Bacolod Capital Corporate Center	517	538	559	582	605
Ayala Northpoint Technohub	419	436	453	471	490
BPI-Philam Life Makati	1,003	1,043	1,084	1,128	1,173
BPI-Philam Life Alabang	882	917	954	992	1,031
	658	**662**	**688**	**716**	**745**
Rental rate escalation per annum (%)					
Solaris One	3.9	4.0	4.0	4.0	4.0
Ayala North Exchange	4.0	4.1	4.2	4.2	4.2
McKinley Exchange	3.6	3.8	4.0	4.0	4.0
Teleperformance Cebu	3.9	4.0	4.0	4.0	4.0
The 30th	2.5	3.3	3.8	3.8	3.8
Laguna Technopark Lots	5.0	5.0	5.0	5.0	5.0
Vertis North	3.0	3.5	3.9	3.9	3.9
One and Two Evotech	4.0	4.0	4.0	4.0	4.0
Bacolod Capital Corporate Center	4.0	4.0	4.0	4.0	4.0
Ayala Northpoint Technohub	4.0	4.0	4.0	4.0	4.0
BPI-Philam Life Makati	4.0	4.0	4.0	4.0	4.0
BPI-Philam Life Alabang	4.0	4.0	4.0	4.0	4.0
	4.0	**4.0**	**4.0**	**4.0**	**4.0**

Source: Company, Maybank Kim Eng

2.2.3 Expecting margins to improve

We forecast EBITDA margin to settle at 78% in FY21E (1H21: 77%) as we factor in fees incurred for acquisitions, which we expect to reach PHP236b or 8% of FY21E revenues (including swap with ALI). Note that AREIT Fund Manager's fee structure includes a one-time fee worth 1% of the property value for every acquisition.

Our base case assumption does not include new acquisitions beyond the property swap with ALI, which reached financial close in Oct 2021. As such, we expect AREIT's EBITDA margin to stabilize at between 83% and 84% starting FY22E as the escalation in rental rate outpace inflationary increases in cash opex (2.5-3.5% p.a.) and in the absence of one-time fees arising from acquisitions.

2.3 100% AFFO dividend payout forecast

AREIT's distributions are based on its adjusted funds from operations (AFFO), which is computed as:

Fig 24: Adjusted funds from operations calculation

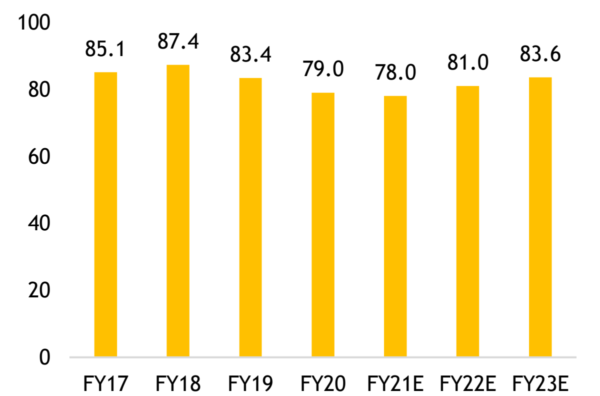
	Line Item
	Net income
Add:	Depreciation and amortization
Less:	Capital expenditures on existing investment properties
Less:	Straight-line rent adjustments
	Adjusted funds from operations

Source: Maybank Kim Eng, Company

The steady rental income collection and stabilizing margins should enable AREIT to distribute 100% of its AFFO or 122%/132% of FY21/22E net income.

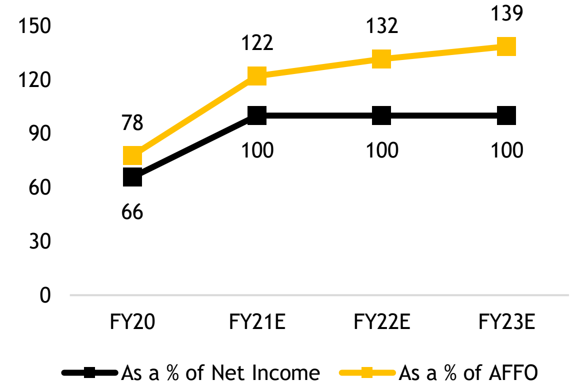
This translates to dividends per share of PHP1.71/1.99 for FY21/22E.

Fig 25: We forecast AREIT's EBITDA margin to stabilize at 83-84%...



Source: Company, Maybank Kim Eng

Fig 26: ...and near-term dividend payout to reach 100% of AFFO

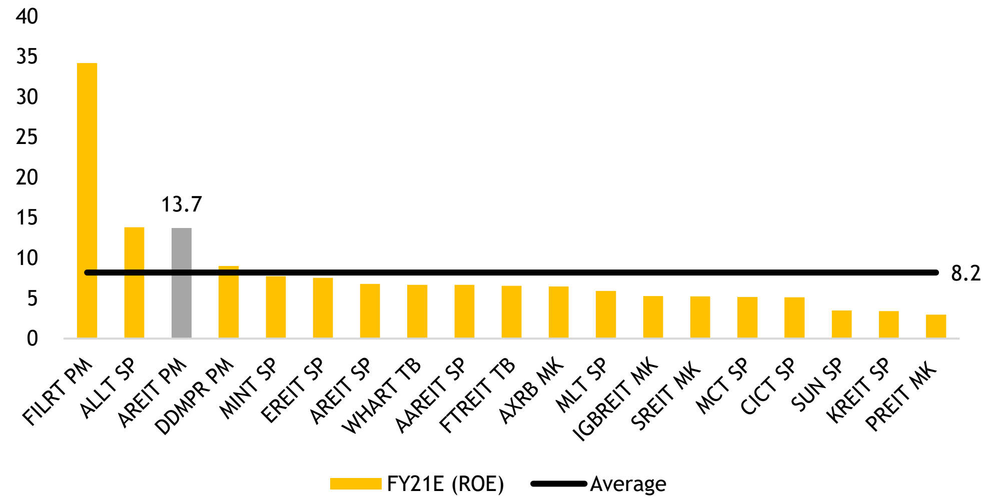


Source: Company, Maybank Kim Eng

2.4 Above-average ROE

Our earnings forecasts and distribution assumptions for AREIT translate to an ROE of 13.7%/12.3% for FY21E/22E, which is above the average ROE of ASEAN peers (8.2%).

Fig 27: ALI has an ROE above the average of peers



Source: Company, Maybank Kim Eng, Bloomberg

2.5 Healthy balance sheet supportive of future growth

As of 1H21, AREIT's balance sheet has zero debt. At our base case assumption (no new acquisitions in FY22E), we expect incremental drawdowns to reach PHP10.0b through FY22E for working capital. Even then, AREIT's debt-to-deposited property value ratio would be well below the 70% threshold set by the REIT Law (Fig 30) at 21% in YE22E.

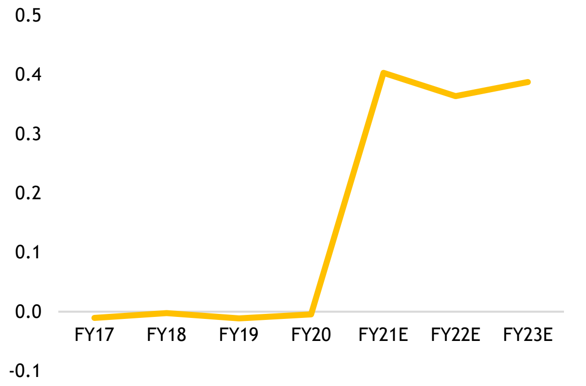
Fig 28: Consolidated balance sheet

PHP m	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Cash & ST inv	26	122	59	173	166	269
Accounts receivable	2,220	4,551	4,985	7,930	10,980	11,421
Investment properties	8,188	6,192	8,304	18,224	28,281	27,381
PPE - net	0	0	0	0	0	0
Other assets	1,145	1,126	1,283	1,449	1,621	1,646
Total Assets	**11,580**	**11,992**	**14,631**	**27,776**	**41,047**	**40,717**
Accounts payable	345	274	514	818	1,132	1,177
Deposits	673	767	852	1,355	1,877	1,952
Term debt	-	-	-	7,200	10,000	10,400
Lease liabilities	-	-	872	915	961	1,009
Other liabilities	61	150	54	54	54	54
Total Liabilities	**1,079**	**1,191**	**2,292**	**10,343**	**14,024**	**14,593**
Common equity	10,451	10,451	10,930	16,085	26,394	26,394
Preferred shares	-	-	-	-	-	-
Other equity	(673)	(673)	112	112	112	112
Retained earnings	723	1,023	1,296	1,236	517	(383)
Minority shares	-	-	-	-	-	-
Total Equity	**10,501**	**10,801**	**12,338**	**17,433**	**27,023**	**26,123**

Source: Company, Maybank Kim Eng

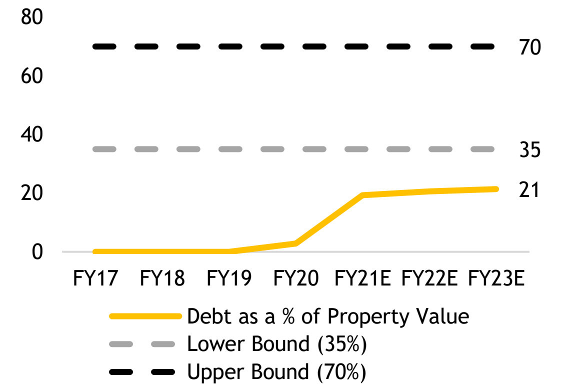
AREIT's under-leveraged balance sheet implies an acquisition capacity of up to PHP28b, providing substantial inorganic growth potential for this stock.

Fig 29: AREIT's net debt-to-equity (FY17-23E)



Source: Company, Maybank Kim Eng

Fig 30: AREIT's debt levels vs. REIT Law thresholds



Source: Company, Maybank Kim Eng

3. Valuation

3.1 DDM-based TP of PHP44

AREIT has a long-term leasehold structure with ALI for its property assets. This means that while AREIT has full rights over the assets' cashflows over the term of the lease, the ownership of the land where the property sits on is retained by ALI.

Given this business model, we apply a dividend discount model to compute for AREIT's fair value. Using a CoE of 8.0%, which is based on a risk-free rate of 4%, an equity risk premium of 6% and a beta of 0.7, we discount AREIT's AFFO until the end of the assets' land leases (20-40 years) and do not ascribe a terminal value to AREIT. We assume AREIT will be distributing 100% of its AFFO and our 0.7x beta assumption is reflective of AREIT's stable cash flows, given its mature portfolio of predominantly office-based assets, sustainably high occupancy rates and long WALE.

The resulting target price of PHP44 implies a FY22E cap rate of 4.6% and FY22E dividend yield of 4.5%.

Fig 31: DDM-based valuation

PHP m	FY21E	FY22E	FY23E	FY24E	FY25E
Distributable income	1,667	2,279	2,336	2,449	2,619
Depreciation	408	760	941	943	944
Funds from operations	**2,075**	**3,040**	**3,277**	**3,391**	**3,563**
Capex on existing investment properties	*-40*	*-41*	*-42*	*-42*	*-43*
Adjusted funds from operations	**2,035**	**2,999**	**3,236**	**3,349**	**3,520**
AFFO payout ratio	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Dividends	2,035	2,999	3,236	3,349	3,520
Total dividends as a % of distributable income	*122.1*	*131.6*	*138.5*	*136.8*	*134.4*
PV of dividends		2,999	2,995	2,870	2,793
Equity value	**65,128**				
Target price (PHP/sh)	**44.00**				
P/DPU (x)	23.4	20.2	18.7	18.1	17.2
Dividend yield (%)	**4.3**	**5.0**	**5.3**	**5.5**	**5.8**

Source: Maybank Kim Eng

3.2 Relative valuation

AREIT appears expensive relative to its peer REITs in ASEAN in terms of P/DPU and dividend yield, but we think its premium valuation is warranted. Our FY22 case for AREIT, which assumes flat occupancy rates for the existing assets and no new acquisitions, already delivers above-average DPU growth and ROE. Considering AREIT's PHP28b investment capacity and the rich pipeline of potential additions from ALI, the upside to AREIT's already above-average DPU should be realizable, in our view.

Fig 32: Peer valuation comparison

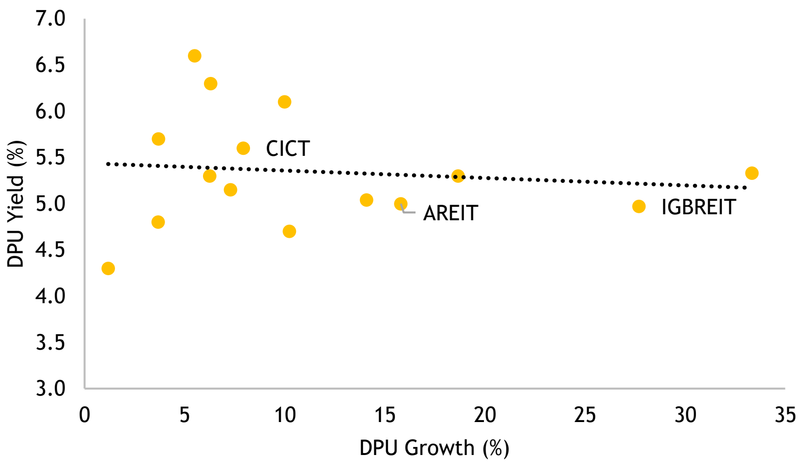
Ticker	Company	Mkt Cap (US$m)	Rating	TP (LC)*	Upside (%)	P/DPU (x)		Div. Yield (%)		P/BV (x)	DPU G (%)		ROE (%)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY21E	FY22E	FY21E	FY22E
Singapore REITs														
CICT SP	Cap. Intl. Comm. Trust	10,247	BUY	2.55	19.7	19.9	16.3	5.1	5.6	1.0	22.3	7.9	5.1	5.7
MCT SP	Mapletree Comm.	5,303	BUY	2.35	9.3	23.3	21.1	4.7	4.7	1.2	n.a.	10.2	5.2	5.7
SUN SP	Suntec REIT	3,193	HOLD	1.30	(13.9)	20.1	18.3	6.0	6.1	0.6	n.a.	10.0	3.5	3.5
KREIT SP	Keppel REIT	2,956	HOLD	1.00	(7.4)	21.9	20.6	5.3	5.3	0.8	n.a.	6.3	3.4	3.4
AREIT SP	Ascendas REIT	9,533	BUY	3.09	1.0	19.7	16.6	5.1	5.3	1.3	24.4	18.7	6.8	7.0
MINT SP	Mapletree Ind.	5,353	BUY	2.90	7.0	19.9	19.1	4.6	4.8	1.5	91.9	3.7	7.7	7.7
MLT SP	Mapletree Log.	6,318	BUY	2.08	5.1	23.3	23.0	4.2	4.3	1.5	(24.0)	1.2	5.9	6.1
ALLT SP	ARA Logos Trust	964	BUY	0.95	6.1	14.8	23.4	6.1	6.4	1.3	70.0	(36.7)	13.8	7.3
AAREIT SP	AIMS APAC	783	BUY	1.60	7.4	15.6	14.8	6.5	6.6	0.9	35.2	5.5	6.7	7.1
EREIT SP	ESR REIT	1,399	BUY	0.55	17.0	11.8	14.4	6.7	7.2	1.2	n.a.	(17.9)	7.6	7.7
Thailand REITs														
FTREIT TB	Frasers Property REIT	1,156	BUY	16.30	29.4	17.0	16.4	5.2	5.7	1.2	72.5	3.7	6.5	7.0
WHART TB	WHA Premium	1,082	BUY	15.00	15.4	18.0	17.6	5.4	5.7	1.2	n.a.	n.a.	6.7	6.8
Malaysia REITs														
AXRB MK	Axis Real Estate Inv	678	NR			20.5	18.9	4.8	5.1	1.3	6.6	6.7	6.5	7.1
IGBREIT MK	IGB Real Estate Inv	1,442	NR			33.6	21.0	3.6	4.9	1.5	(9.5)	34.4	5.3	7.3
PREIT MK	Pavilion Real Estate Inv	1,042	NR			37.8	21.2	2.7	4.7	1.1	(7.5)	73.6	3.0	5.0
SREIT MK	Sunway Real Estate Inv	1,203	NR			19.5	16.2	14.6	4.6	5.3	n.a.	15.5	5.2	5.7
Philippine REITs														
DDMPR PM	DDMP REIT, Inc	635	BUY	2.30	27.1	17.2	15.6	5.7	6.3	0.9	5.8	6.4	9.0	5.5
FILRT PM	Filinvest REIT Corp	704	NR			20.0	19.0	6.0	6.3	7.3	n.a.	4.6	34.2	38.8
MREIT PM	MREIT Inc	887	NR			n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
RCR PM	RL Commercial REIT	1,330	NR			n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Averages														
	Singapore					20.4	18.6	5.0	5.3	1.2	19.5	7.3	5.9	6.1
	Thailand					17.5	17.0	5.3	5.7	1.2	37.5	1.9	6.6	6.9
	Malaysia					28.7	19.4	6.6	4.8	2.4	-3.9	34.2	4.9	6.3
	Philippines					18.7	17.4	5.9	6.3	4.3	2.8	5.4	22.3	23.0
	Overall					20.9	18.6	5.2	5.3	1.4	17.9	9.2	6.3	6.5
AREIT PM	**AREIT Inc**	**810**	**BUY**	**44.00**	**9.7**	**23.3**	**20.1**	**4.3**	**5.0**	**2.7**	**17.8**	**15.9**	**13.7**	**12.3**

Source: Maybank Kim Eng, Bloomberg

Notes:

1. *Averages are weighted based on market cap.*
2. *Target prices denominated in local currency (LC)—SGD, THB, MYR, and PHP respectively.*
3. *Valuation metrics for stocks with rating based on Maybank Kim Eng's coverage. Consensus estimates used for stocks Not Rated (NR).*

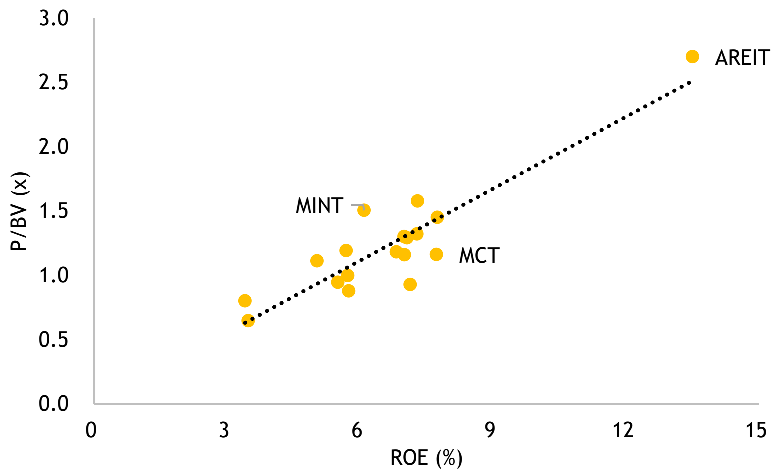
Fig 33: REITs DPU yield (%) vs DPU growth (%)



Source: Maybank Kim Eng, Bloomberg

We observe that REITs with faster DPU growth tend to trade at lower yields, consistent with our view that AREIT merits a premium valuation. Our implied FY22E dividend yield for AREIT is 4.5%, a premium to peers.

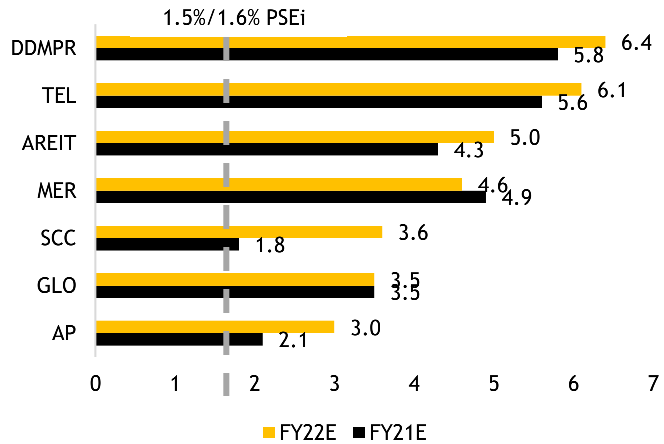
Fig 34: REITs P/BV (x) vs ROE (%)



Source: Maybank Kim Eng, Bloomberg

We likewise observe that REITs with faster DPU growth tend to trade at higher P/BV multiples.

Fig 35: AREIT FY21E/FY22E DPU yield vs. other "dividend plays"



Source: Maybank Kim Eng, Bloomberg

Worth noting is AREIT's FY22E dividend yield is higher than the yields of "dividend plays" in our coverage and the dividend yield of the PSEi.

4. Key risks and catalysts

4.1 Key risks

4.1.1 Greater-than-expected degree of non-renewals and pre-terminations

A greater-than-expected degree of non-renewals and pre-terminations presents downside risk to our occupancy level forecasts. As of 1H21, AREIT received two notices of pre-termination, which impact 2% of the aggregate portfolio. Based on our sensitivity analysis, our TP for AREIT is cut by 1% for every 50bps reduction in overall occupancy rates.

Fig 36: Sensitivity analysis for occupancy rate

Chg from Base Case	TP	% Chg in TP	Div. Yield (%)		DPU Growth (%)	
			FY21E	FY22E	FY21E	FY22E
+1.00%	44.41	0.9	4.4	5.1	19.0	15.8
+0.50%	44.20	0.5	4.3	5.0	18.4	15.9
0.00%	44.00	0.0	4.3	5.0	17.8	15.9
-0.50%	43.80	-0.5	4.3	5.0	17.0	16.0
-1.00%	43.49	-1.2	4.3	4.9	16.2	16.0
-1.50%	43.29	-1.6	4.2	4.9	15.3	16.1
-2.00%	42.98	-2.3	4.2	4.9	14.5	16.2
-2.50%	42.78	-2.8	4.2	4.9	13.7	16.2
-3.00%	42.47	-3.5	4.1	4.8	12.9	16.3

Source: Maybank Kim Eng

A 50bps reduction in occupancy rates translate to the pre-termination or non-renewal of 17k sqm worth of office space, which is less likely to happen at the same time, given AREIT's diversified tenant base. Further, adequate covers are embedded in the contracts such that AREIT could have rental income coverage for up to 6 months.

4.1.2 Lower-than-expected lease escalation

Prolonged macroeconomic weakness may result in higher demand for rental waivers and discounts, which may drive downside risk for lease escalation. Based on our analysis, our TP is cut by 1% for every 25bps reduction in overall escalation rate.

Fig 37: Sensitivity analysis for lease escalation rate

Chg from Base Case	TP	% Chg in TP	Div. Yield (%)		DPU Growth (%)	
			FY21E	FY22E	FY21E	FY22E
+1.00%	45.94	4.4	4.4	5.1	19.3	17.2
+0.75%	45.43	3.2	4.4	5.1	18.9	16.9
+0.50%	44.92	2.1	4.4	5.1	18.6	16.5
+0.25%	44.51	1.2	4.3	5.0	18.2	16.2
0.00%	44.00	0.0	4.3	5.0	17.8	15.9
-0.25%	43.59	-0.9	4.3	5.0	17.4	15.6
-0.50%	43.08	-2.1	4.3	5.0	17.0	15.2
-0.75%	42.68	-3.0	4.3	4.9	16.6	14.9
-1.00%	42.17	-4.2	4.3	4.9	16.2	14.6

Source: Maybank Kim Eng

Nevertheless, AREIT's portfolio is primarily in the office space, with quality tenants and a significant portion of AREIT's retail exposure is hedged via guaranteed fixed lease payments from ALI, which should minimize the variability of rental escalations.

4.1.3 Corporate governance risk

AREIT may face conflicts of interest, especially for related-party transactions (RPTs). RPTs may arise from leasing to affiliates or acquisitions from the sponsor. Lease rates are determined on an arm's length basis and acquisition terms are subject to the fairness opinion of an auditor accredited by both the Securities and Exchange Commission and the Philippine Stock Exchange. Additionally, RPTs require approval and endorsement from the RPT Committee of the Board. Revenue from related parties made up 18% of 1H21 revenue.

4.2 Key catalysts

The top-of-mind catalyst for AREIT, in our view, would be additional asset infusions. In this regard, upside risk is substantial as: (i) ALI has approximately of 944k sqm of office GLA that can be folded into the REIT; and (ii) AREIT's leverage levels remain fairly low.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Price/DPU(x)	na	20.2	23.4	20.2	18.7
P/BV (x)	na	2.4	3.5	2.2	2.3
P/NTA (x)	na	2.4	3.5	2.2	2.3
DPU yield (%)	na	5.0	4.3	5.0	5.3
FCF yield (%)	na	nm	nm	nm	5.5
INCOME STATEMENT (PHP m)					
Revenue	1,563.1	1,951.6	3,104.5	4,298.6	4,471.3
Net property income	**1,317.6**	**1,591.9**	**2,474.1**	**3,534.7**	**3,792.4**
Management and trustee fees	0.0	0.0	0.0	0.0	0.0
Net financing costs	45.7	13.3	(344.3)	(442.3)	(460.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	397.1	0.0	305.0	0.0	0.0
Other pretax income/expenses	0.1	3.7	0.0	0.0	0.0
Pretax profit	**1,746.5**	**1,559.3**	**2,383.2**	**3,039.5**	**3,277.2**
Income tax	(294.4)	(106.6)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	**1,452.0**	**1,452.7**	**2,383.2**	**3,039.5**	**3,277.2**
Core net profit	1,452.0	1,452.7	2,383.2	3,039.5	3,277.2
Distributable inc to unitholders	1,658.5	1,227.2	1,667.3	2,279.2	2,335.9
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	122.2	59.0	173.3	166.0	269.0
Accounts receivable	1,994.5	2,384.2	3,792.6	5,251.4	5,462.3
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	6,192.4	8,303.8	18,223.9	28,280.5	27,380.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3,682.6	3,883.7	5,586.2	7,349.6	7,604.5
Total assets	**11,991.7**	**14,630.7**	**27,776.0**	**41,047.5**	**40,716.7**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	274.5	513.9	817.5	1,132.0	1,177.4
LT interest bearing debt	0.0	0.0	7,200.0	10,000.0	10,400.0
Other liabilities	916.5	1,778.4	2,325.3	2,892.5	3,015.9
Total Liabilities	**1,191.0**	**2,292.3**	**10,342.9**	**14,024.4**	**14,593.3**
Shareholders Equity	10,800.7	12,338.4	17,433.2	27,023.1	26,123.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**10,800.7**	**12,338.4**	**17,433.2**	**27,023.1**	**26,123.4**
Total liabilities and equity	**11,991.7**	**14,630.7**	**27,776.0**	**41,047.5**	**40,716.7**
CASH FLOW (PHP m)					
Cash flow from operations	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capex	(45,181.5)	(37,878.2)	(36,970.0)	(41,871.0)	(51,131.6)
Acquisitions & investments	(10.4)	(1,483.8)	(10,328.1)	(10,816.9)	(41.6)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	45,380.5	37,534.9	36,970.0	41,871.0	51,131.6
CF from investing activities	**188.6**	**(1,827.1)**	**(10,328.1)**	**(10,816.9)**	**(41.6)**
Dividends paid	(961.3)	(953.9)	(2,035.2)	(2,998.7)	(3,235.6)
Interest expense	(12.6)	(65.4)	0.0	0.0	0.0
Change in debt	0.0	0.0	7,200.0	2,800.0	400.0
Equity raised / (purchased)	0.0	1,223.2	5,154.7	10,309.4	0.0
Other financial activities	0.0	(32.8)	43.6	45.8	48.1
CF from financing activities	**(961.3)**	**236.6**	**10,363.1**	**10,156.5**	**(2,787.5)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**96.1**	**(63.2)**	**114.3**	**(7.2)**	**103.0**

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	80.6	24.9	59.1	38.5	4.0
Net property income growth	73.3	20.8	55.4	42.9	7.3
Core net profit growth	136.8	0.0	64.1	27.5	7.8
Distributable income growth	208.8	(26.0)	35.9	36.7	2.5
Profitability ratios (%)					
Net property income margin	84.3	81.6	79.7	82.2	84.8
Core net profit margin	92.9	74.4	76.8	70.7	73.3
Payout ratio	128.6	100.0	85.4	98.7	98.7
DuPont analysis					
Total return margin (%)	92.9	74.4	76.8	70.7	73.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.1	1.2	1.6	1.5	1.6
ROAE (%)	13.6	12.6	16.0	13.7	12.3
ROAA (%)	12.3	10.9	11.2	8.8	8.0
Leverage & Expense Analysis					
Asset/Liability (x)	nm	6.4	2.7	2.9	2.8
Net gearing (%) (excl. perps)	net cash	net cash	40.3	36.4	38.8
Net interest cover (x)	na	na	7.0	7.9	8.1
Debt/EBITDA (x)	0.0	0.0	2.5	2.4	2.2
Capex/revenue (%)	nm	nm	nm	nm	nm
Net debt/ (net cash)	(122.2)	(59.0)	7,026.7	9,834.0	10,131.0
Debt/Assets (x)	0.00	0.00	0.26	0.24	0.26

Source: Company; Maybank

Appendix: Philippine REIT Regulatory Framework

Regulations surrounding REITs in the Philippines are based primarily on the Real Estate Investment Trust (REIT) Act of 2009 (RA 9856) and subsequent memoranda/circulars:

- Revised Implementing Rules and Regulations of RA 9856 (SEC Memorandum Circular No. 1, Series of 2020)
- BIR Revenue Regulations (RR) No. 13-2011, as amended by RR No. 3-2020
- PSE Amended Listing Rules for Real Estate Investment Trust

According to the REIT Act of 2009, a REIT must, among others:

1. Be a public company with at least 1,000 public shareholders and a minimum float of 1/3 of the outstanding capital stock
2. Have a minimum paid-up capital of PHP300m
3. Have 75% of its deposited property value invested in income-generating real estate
4. Not invest more than 5% of its investible funds in synthetic investment products (eg. credit default swaps, options)
5. Not undertake property development activities, whether on its own or via joint venture
6. Not invest more than 15% of investible funds in any one issuer's securities or any one's managed fund
7. Have total borrowings and deferred payments more than 35% of deposited property value (70% of deposited property value for REITs with publicly-disclosed investment grade credit rating)
8. Conduct RPTs on "fair and reasonable terms" and be approved by the Board
    a. REITs must provide full, fair, timely and accurate disclosures of the parties and their relationship.
    b. RPTs must be accompanied by a fairness opinion by an independent appraiser.
9. Have a full valuation conducted by an independent appraisal company accredited by the SEC
10. Appoint a fund manager independent from the REIT
    a. Fees received by the fund manager and property manager shall not exceed 1% of the net asset value of the assets under management.
11. Appoint a property manager who shall be responsible for managing real estate assets
12. Have a Board that consists of 1/3 independent directors

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