MOODY'S
INVESTORS SERVICE

Credit Opinion: AIMS-AMP Capital Industrial REIT

Global Credit Research - 05 Sep 2011

Singapore

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba1

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Key Indicators

AIMS-AMP Capital Industrial REIT

	2009	2010	[1]2011	3-Yr.Avg
Total Revenue (S$ million)	50.8	50.9	73.2	[2]20.0%
EBITDA (S$ million)	32.4	35.9	48.2	[2]21.9%
EBITDA Margin	63.8%	70.5%	65.8%	66.7%
Total Debt / EBITDA (x)	6.9	5.1	5.7	5.9
EBITDA / Interest (x)	5.4	2.6	4.5	4.2
Total Assets (S$ million)	544	658	875	[2]26.8%
Total Debt % Total Assets	41.1%	27.7%	31.2%	33.4%
Secured Debt % Total Assets	41.1%	27.7%	31.2%	33.4%

[1] Year end March 31 [2] Compound Annual Growth Rate

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Small operating scale with geographic and tenant concentration

Sound financial metrics and improved liquidity

Lease expiry profile risk in FY2013 partially mitigated by underlying sub-tenancies in expiring master leases

Improved liquidity management, but financial flexibility limited

Corporate Profile

Headquartered in Singapore, AIMS AMP Capital Industrial REIT ("AIMSAMPIReit", formerly MacarthurCook Industrial REIT or "MI-REIT") is a real estate unit trust that owns and invests in a diversified portfolio of industrial properties. These properties mainly support warehousing, manufacturing, and logistics/distribution activities in Singapore.

Its initial portfolio, when it was listed on the SGX on April 19 2007, consisted of 12 properties with net lettable area (NLA) of 194,981 square meters (sqm), and valued at S$316.2 million. As of June 2011, the portfolio had grown to 26 properties with NLA of 456,607 sqm, valued at S$853.2 million.

The trust is managed by AIMS AMP Capital Industrial REIT Management Limited, a joint venture REIT management company owned by AIMS Financial Group and AMP Capital Investors. AIMS Financial Group is a privately owned Australian, non-bank financial services and investment group, while AMP Capital Investors is a wholly owned subsidiary of AMP Limited, an Australian retail and corporate pension provider, as well as an investment manager, listed on the Australian Securities Exchange.

Rating Rationale

AIMSAMPIReit's Ba1 corporate family rating reflects its healthy capital structure following the successful completion of its recapitalization plan in December 2009. The refinancing of its S$175 million loan facility due 2012 -- with a new S$280 million facility from Standard Chartered Bank, United Overseas Bank Limited and Commonwealth Bank of Australia in October 2010 -- further extends its debt maturities and broadens its banking relationships.

Currently, there are no near-term refinancing needs, with major debt maturities due only in 2013. Although AIMSAMPIReit has a substantial portion of its leases expiring in FY2013, lease expiry profile risk is partially mitigated by the underlying sub-tenancies in the expiring master leases. As of June 30, 2011, the weighted average lease expiry for the trust was 3.2 years.

On the other hand, AIMSAMPIReit's rating is constrained by its small operating scale, as well as its level of geographic and tenant concentration. Despite its strong financial profile, the trust's limited financial flexibility, given its high level of encumbered assets - also constrains its current rating.

DETAILED RATING CONSIDERATIONS

1. Small operating scale, with geographic and tenant concentration

As at June 30, 2011, AIMSAMPIReit had a portfolio of 26 industrial assets valued at S$853.2 million. The entire property portfolio was based in Singapore.

As the trust continues to seek yield accretive acquisitions, and add quality properties to expand its existing portfolio domestically, it also plans to tap into its sponsors' overseas presence and expand beyond Singapore. However, its focus will remain on industrial properties in the domestic market. Its sponsors are AIMS Financial Group and AMP Capital Investors.

AIMSAMPIReit's property portfolio (based on total rental income for 1Q2012) comprises warehouse and logistics (62.7%), manufacturing (21.4%), and business park/hi-tech (15.9%). Although its portfolio size may be small, the properties are seasoned, well-maintained and close to major road networks as well as to airports, seaports and key industrial belts and transportation nodes. The overall occupancy for the properties remains high at 99.1% as of June 30, 2011.

As of June 30, 2011, AIMSAMPIReit had 21 properties under master lease arrangements and five under multi-tenanted leases. Its portfolio exhibits some degree of tenant concentration due to the head-lease agreement, with its top ten tenants accounting for about 74.0% of gross rental income in 1Q2012. However, no single tenant contributed more than 19.5% of rental income during the period.

This concentration risk is also partially mitigated by the sub-lease arrangements in 17 of the 21 properties under master lease arrangements, which should provide an additional layer of income protection. The trust also plans to convert eight of the master leases into multi-tenancy leases over the next 1-2 years.

In addition, the low level of tenant diversity is mitigated by the portfolio's broad tenant base by industry, with the logistics & warehousing sector taking up the largest share at 26.4% of rental income in 1Q2012, followed by construction and engineering at 22.3%.

While Moody's expects that AMP Capital Investors' established market presence and track record in real estate investment and management could benefit AIMSAMPIReit as it pursues growth and seeks new funding, it still needs to establish a track record in managing the REIT's business and planned financial positions.

2. Improved liquidity management albeit limited financial flexibility remains

After the completion of the recapitalization of its balance sheet -- via a rights issue and share placement in 2009, as well as a debt refinancing exercise in 2009/10 -- AIMSAMPIReit's liquidity profile and capital structure improved, with its loan-to-value (LTV) ratio decreasing to 28% as of March 31 2010 from 41% in the previous year, and debt/EBITDA improving to 5.1x from 6.9x. For 1Q2012, AIMSAMPIReit's LTV ratio increased slightly to 30%, while Debt/EBITDA decreased to 4.9x. The trust's portfolio of properties remains entirely encumbered, which limits its financial flexibility.

Singapore's industrial property sector was highly impervious to the economic downturn of 2008-2009. Market rental rates for industrial property remained stable and with improved economic conditions in Asia, have risen slightly since late 2009, particularly for factory and warehouse space.

Although the outlook for the industrial segment continues to be favorable, in tandem with economic conditions, there are concerns over a large supply of new factory and warehouse space in the next two years. Although much of this space is already pre-committed, growth in rental rates for factories is expected to slow in 2011 as Singapore's economic growth declines.

Although AIMSAMPIReit's financial profile could weaken moderately due to its acquisitive growth strategy, the rating accommodates Moody's expectation that the trust will fund potential acquisitions with a balanced mix of debt and equity and maintain gearing within its targeted 40%. The recent two acquisitions, namely 27 Penjuru Lane and 29 Woodlands Industrial Park E1, both situated in Singapore, were financed via a debt/equity mix.

Moody's positively recognizes the measures adopted by AIMSAMPIReit's sponsors and management team. However, a longer track record is required for these to fully offset the trust's difficult, recent history in liquidity management.

3. No near-term refinancing risk

In August 2010, AIMSAMPIReit accepted a letter of commitment for a new debt facility of S$280 million with three tranches from Standard Chartered Bank, United Overseas Bank Limited, and the Commonwealth Bank of Australia. The proceeds from the facility were used to refinance its S$175 million loan facility due in December 2012, partly finance the acquisition of property at Penjuru Lane, and cover any related costs as well as working capital.

The refinancing of the S$175 million facility lengthened AIMSAMPIReit's debt maturity profile and enhanced its financial flexibility, as its loan payment maturities will be staggered over the next three to five years. Moreover, the financing terms of the new S$280 million loan facility are more advantageous, with interest margins at 2.05%-2.35%, compared to 3.50% for the previous facility.

In February 2011, AIMSAMPIReit had also accepted a commitment letter for a new debt facility from Standard Chartered Bank, comprising a three-year secured term loan facility and a one-year revolving credit facility to part-finance the acquisition of 29 Woodlands Industrial Park E1.

Accordingly, AIMSAMPIReit has no major near-term refinancing needs until 2013.

4. Lease expiry profile risk in FY2013 partially mitigated by the underlying sub-tenancies in expiring master leases

Moody's notes that AIMSAMPIReit will have a substantial portion of its leases expiring in FY2013, with approximately 41.8% of net leaseable area expiring that year. As of June 30, 2011, the weighted average lease expiry for the trust was 3.2 years, with 4.6% of its rental income subject to lease expiry in FY2012.

Of the 41.8% that will expire in FY2013, 12.4% pertains to the master lease at 8 & 10 Pandan Crescent, and 17.0% to the master lease at 27 Penjuru Lane. With a substantial portion of the leases expiring in FY2013, AIMSAMPIReit is exposed to re-tenant risk over the medium term. Nevertheless, Moody's expects AIMSAMPIReit to actively manage and renegotiate the leases with existing tenants. Its quality assets and long-term relationships with its tenants could help in managing its lease profile. The lease expiry profile risk is also partially mitigated by the underlying sub-tenancies in the expiring master leases.

As of June 30, 2011, AIMSAMPReit held tenant security deposits for all rental properties with tenures between 3 and 12 months. All of its 21 master lessees (head tenants) are secured by bank guarantees &/or cash deposits, which cover rental and service charges and for tenures between 6 and 12 months.

5. Venture into green-field development

In July 2011, AIMSAMPIReit announced the redevelopment of 20 Gul Way, an industrial property in Jurong Industrial Estate, Singapore, into a five-storey ramp up warehouse facility.

Such projects could lead to property development risks and pressure key credit metrics temporarily due to additional debt taken up to fund projects.

In order to mitigate property development risks, AIMSAMPIReit has entered into a design and construction agreement with Indeco Engineers, a wholly-owned subsidiary of CWT. Under the agreement, AIMSAMPIReit will not be liable for any cost overruns, but will instead receive compensation for any loss in rental income if the contractor's actions delay the project. Furthermore, the company has signed a pre-committed, master-lease agreement with CWT for the entire gross floor area (GFA). Such an agreement provides medium-term visibility to operating income and minimizes operating risk for the property.

The property development is expected to cost about SGD137 million, bringing total development cost to approximately 16% of total assets. For the purpose of the redevelopment, AIMSAMPIReit has secured a new four-year secured term loan of SGD150 million, which extends beyond the construction period.

AIMSAMPIReit's interest coverage and debt/EBITDA ratios are expected to weaken over the development period due to loss of rental income from the existing property and the additional debt taken up to fund the project. In addition, the trust remains exposed to counterparty risks for the transaction.

Estimated valuation of the property upon completion will be SGD214 million, bringing the total portfolio value to SGD1.03 billion from the current book value of SGD853.2 million.

Liquidity Profile

Given the high dividend payout characteristics of the S-REITs, AIMSAMPIReit has to rely on refinancing and additional funding for planned expansion.

However, Moody's takes comfort that AIMSAMPIREIT will have no material refinancing needs over the next 12 months, with the next major debt maturity in October 2013.

Rating Outlook

The stable outlook reflects Moody's expectation that AIMSAMPIReit will maintain a prudent capital structure while it expands, such that adjust debt/total assets is maintained below 40% over time.

What Could Change the Rating - Up

The rating may experience upward pressure if (1) AIMSAMPIReit's sponsors further demonstrates its support for the trust by providing access to their property pipelines and improve the trust's access to funding; (2) it substantially expands its business scale to S$1.5-2.0 billion in total assets, while not materially deteriorating its current credit metrics; (3) it further diversifies its portfolio across the industrial property sector, which includes business parks and hi-tech space; and (4) it improves on its financial flexibility by further broadening its banking relationships and increasing the level of unencumbered assets in its portfolio.

What Could Change the Rating - Down

The rating may experience downward pressure if (1) its operating environment deteriorates, such that it suffers high vacancy rates and a decline in rentals and operating cash flows, and/or financial metrics with Debt/EBITDA exceeding 8x, Debt/Total Assets above 40%, and EBITDA/interest coverage below 3x on a consistent basis; (2) further acquisitions are made without committed funding in place; and (3) a more aggressive growth policy is undertaken to fund new investments.

Other Considerations

Methodology

In accordance with Moody's global "Rating Methodology for REITs and Other Commercial Property Firms" (July 2010), AIMSAMPIReit's credit profile maps broadly to a Baa-rated issuer, incorporating factors such as healthy capital structure with no near term refinancing needs, broadened banking relationships, as well as small operating scale, geographic and tenant concentration, and limited financial flexibility, given its high level of encumbered assets.

Rating Factors

AIMS-AMP Capital Industrial REIT

Real Estate Investment Trust	Aaa-Aa	A	Baa	Ba	B	Caa
Factor 1: Liquidity & Funding						
a) Liquidity Coverage				X		
b) Upcoming Debt Maturites				X		
c) FFO Payout Ratio				X		
d) Unencumbered Assets						X
Factor 2: Leverage & Capital Structure						
a) Debt + Preferred / Gross Assets			X			
b) Net Debt / EBITDA			X			
c) Secured Debt / Gross Assets					X	
d) Access to Capital				X		
Factor 3: Market Position & Asset Quality						
a) Franchise / Brand Name				X		
b) Gross Assets (US$ Billion)					X	
c) Portfolio Diversity				X		
d) Development % Gross Assets				X		
e) Asset Quality				X		
Factor 4: Cash Flow & Earnings						
a) EBITDA / Revenues		X				
b) EBITDA Margin Volatility			X			
c) Fixed Charge Coverage	X					
d) JV / Fund Business % Revenues	X					
Rating:						
Actual Rating Assigned				**Ba1**		