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Research Update:

AIMS AMP Capital Industrial REIT Assigned 'BBB-' Rating With Stable Outlook

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Overview

- AIMSAMPIREIT has a "satisfactory" business risk profile and an "intermediate" financial risk profile.
- We are assigning our 'BBB-' long-term corporate credit rating and our 'axA-' ASEAN regional scale rating to the REIT.
- The stable outlook reflects our expectation that AIMSAMPIREIT will expand its industrial portfolio while maintaining a moderate financial stance.

Rating Action

On April 17, 2012, Standard & Poor's Ratings Services assigned its 'BBB-' long-term corporate credit rating to Singapore-based AIMS AMP Capital Industrial REIT (AIMSAMPIREIT). The outlook is stable. At the same time, we assigned our 'axA-' ASEAN regional scale rating to the REIT.

Rationale

The rating on AIMSAMPIREIT reflects the trust's portfolio of good-quality and well-located industrial property assets. The rating also reflects AIMSAMPIREIT's operating strategy, which benefits from an association with the REIT's sponsors AMP Capital Group and AIMS Financial Group, and the trust's moderate financial policy. AIMSAMPIREIT's concentrated asset base, declining master lease exposure, limited geographic diversity, and a volatile lease expiry profile temper the above strengths.

While AIMSAMPIREIT's portfolio may be smaller than similar rated industrial REITs, its asset values are comparable with peers'. The trust's 26 properties are well located, larger in size, and superior in quality compared to those of its peers. This is because premium ramp-up warehouse (a type of multi-storey warehouse that offers direct vehicular access to every floor) space constitutes 20% of AIMSAMPIREIT's portfolio. In addition, the trust benefits from strategic and management inputs from its sponsors. These factors underpin the trust's "satisfactory" business risk profile, in our opinion.

The REIT's concentrated asset portfolio and a volatile lease maturity profile are rating weaknesses. AIMSAMPIREIT could shift its focus to a multi-tenant mix from master leases. This, along with a lumpy capital expenditure program, will pressure the trust's cash flow adequacy. As of Dec. 31, 2011, master leases account for about 80% of total lettable area. We expect master leases to form 52% of total lettable area by the end of 2013, with multi-tenant leases accounting for the rest. This, along with our expectation that 42% of

AIMSAMPIREIT's total leases will expire in the fiscal year ending March 31, 2013, will increase the overall volatility of the trust's lease profile, in our view.

The reversion of several properties to multi-tenant leases will increase AIMSAMPIREIT's operating expenses in fiscal 2013 due to several one-off items, which will compress the trust's EBITDA margin. Nevertheless, we believe that stable occupancy rates and capital values of industrial properties in Singapore through economic cycles compared with those of commercial properties offset this weakness. We expect stable cash flows from assets and moderate leverage to underpin AIMSAMPIREIT's "intermediate" financial risk profile. The REIT is committed to a loans-to-total assets ratio of 30%-40% as part of its prudent financial management policy.

We expect AIMSAMPIREIT's debt to increase by about Singapore dollar (S$) 120 million in the next 12 months. The REIT will use this debt to fund the redevelopment of its 20 Gul Way property into a new ramp-up warehouse. The redevelopment will increase the trust's net lettable area by about 24% to 6.1 million square feet once it is complete in December 2013. The redevelopment will make AIMSAMPIREIT the second-largest landlord of ramp-up warehouses in Singapore, and the REIT's total portfolio size will surpass S$1 billion. AIMSAMPIREIT has a fixed-price construction contract and confirmed master lease with CWT Ltd. (not rated), which is one of the largest tenants of warehouse space in Singapore. This should mitigate the leasing risk for Gul Way.

In our base-case scenario, the trust's projected credit ratios remain supportive of the rating. We expect AIMSAMPIREIT's ratio of funds from operations (FFO) to debt to decline to 11% in fiscal 2013, from 17% as of March 31, 2012. We also expect the REIT's ratio of debt to total debt and equity to increase to about 37%-39% by March 2013, from 31.9% as of March 31, 2011, which was lower than the 35%-38% average leverage for Singapore-based REITs.

Liquidity

We view AIMSAMPIREIT's liquidity as "adequate". As of Dec. 31, 2011, the REIT has unrestricted cash of S$10.0 million. We estimate the trust's liquidity sources will exceed its liquidity uses by more than 30% in fiscal 2013. Our liquidity assessment is based on the following major assumptions:

- Funds from operations of S$40 million-S$43 million in fiscal 2013.
- Committed and undrawn facilities of about S$180 million.
- Budgeted maintenance and development capital expenditure of S$115.0 million to S$120 million.
- We expect cash sources to remain positive even if EBITDA declines by 15%.
- Distribution to unitholders of S$46 million to S$50 million.

We believe that there is limited headroom for AIMSAMPIREIT to increase its debt by fiscal 2013. We estimate the trust's ratio of total debt to debt and equity at about 38% by fiscal 2013. Nevertheless, AIMSAMPIREIT's funding needs are minimal in the next 12 months because it has secured loans for the redevelopment of Gul Way. In the next 12 months, we believe the REIT is not at risk of breaching the financial covenants stipulated in the bank loans. Covenants include an interest coverage ratio of at least 2.5x and a maximum ratio of total debt to total assets of less than 45%.

Outlook

The stable outlook reflects our expectation that AIMSAMPIREIT will continue to generate steady cash flows, and that any future asset acquisitions or development will not raise the REIT's loan-to-assets ratio above 40%. We expect the trust's FFO-to-interest coverage ratio at more than 4x.

We may raise the rating if AIMSAMPIREIT expands its asset portfolio and endeavors to optimize its master- and multi-tenancy mix to even out lease expiries and minimize income volatility. We may also raise the rating if the REIT's cash flow measures are such that its FFO-to-debt ratio is more than 15% on a sustained basis. We could also upgrade AIMSAMPIREIT if its manager articulates a more conservative leverage policy.

We may lower the rating if AIMSAMPIREIT embarks on an aggressive debt-funded acquisition, which weakens its capital structure. We could also downgrade AIMSAMPIREIT if the trust's portfolio quality declines or rental income falls, such that its credit metrics are pressured. In particular, FFO interest coverage weakening to less than 3x and an FFO-to-debt ratio of below 11% on a sustained basis could be a downgrade trigger.

Related Criteria And Research

- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

New Rating

AIMS AMP Capital Industrial REIT	
Corporate Credit Rating	
	BBB-/Stable/--
	axA-/--

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