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Summary:

AIMS AMP Capital Industrial REIT

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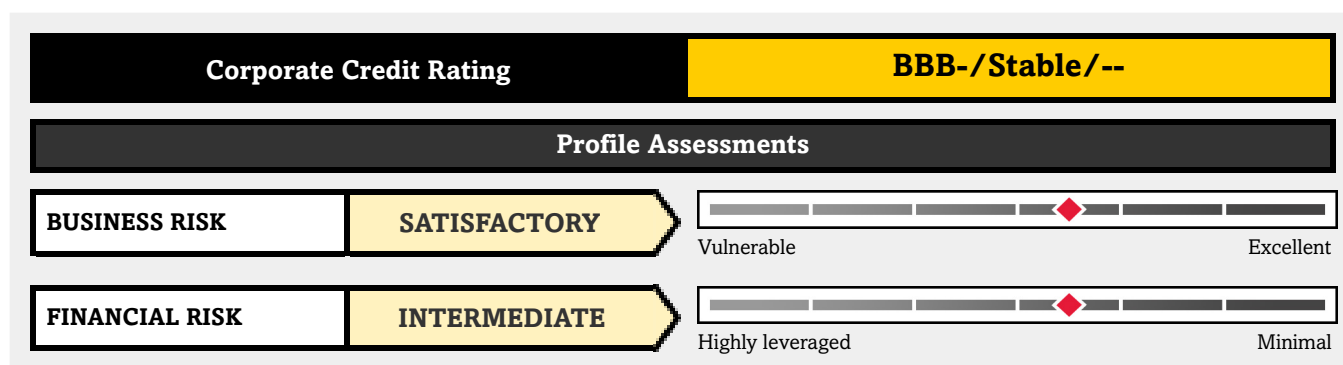
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Summary:

AIMS AMP Capital Industrial REIT



Issuer Rating Profile

Foreign Currency:BBB-/Stable/--

Local Currency: BBB-/Stable/--

ASEAN Regional Scale: axA/--

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
<ul style="list-style-type: none">• Exposure to stable industrial property sector in Singapore.• High asset concentration.• Higher occupancy rates than the industry average.• Improved lease expiry profile with declining master lease exposure.• Supportive sponsors.	<ul style="list-style-type: none">• Moderate financial policy.• Declining EBITDA margin.• Adequate liquidity.

Outlook: Stable

The stable outlook on AIMS AMP Capital Industrial REIT (AAREIT) reflects our expectation that the REIT will continue to generate steady cash flows. The outlook also reflects our view that any future asset acquisitions or development will not raise AAREIT's debt-to-assets ratio above 40%. We expect the trust's EBITDA interest coverage to be more than 4x over the next 24 months, given the low interest rates in Singapore.

Upside scenario

We may raise the rating if: (1) AAREIT expands its asset portfolio and optimizes its master- and multi-tenanted lease mix to even out lease expiries and minimize income volatility; (2) the REIT's cash flow adequacy measures keep the ratio of funds from operations (FFO) to debt more than 15% on a sustained basis; or (3) the REIT manager adopts a more conservative leverage policy.

Downside scenario

We may lower the rating if AAREIT embarks on aggressive debt-funded acquisitions, which weaken the trust's capital structure. We could also downgrade AAREIT if the trust's portfolio quality declines or rental income falls, such that its credit metrics come under pressure. In particular, EBITDA interest coverage weakening to about 3x and an FFO-to-debt ratio of below 10% on a sustained basis could cause a downgrade.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none">• A pipeline of development projects will contribute income in fiscal 2014 (ending March 31) and fiscal 2015.• 6%-9% revenue increase for fiscal 2014 and fiscal 2015.• EBITDA margins will moderately weaken but remain above 55%.				
		2013A	2014E	2015E
	FFO/Debt	12.1%	11%-15%	11%-15%
	EBITDA interest coverage	3.7x	3.5x-4.5x	3.5x-4.5x
	Total debt/Total assets	34%	30%-35%	30%-35%
Data is for the fiscal year ending March 31				
A--Actual. E--Estimate				

Business Risk: Satisfactory

AAREIT's asset portfolio of good quality and stable industrial properties in Singapore supports the REIT's business risk profile.

We expect AAREIT to remain exposed to asset concentration risk. The logistics sector currently makes up more than a third of the REIT's lease exposure in terms of rental income. AAREIT's ramp-up warehouse 20 Gul Way contributes about 20% of the trust's rental income.

The trust smoothed its lease expiry profile in fiscal 2013 by converting master leases to multi-tenant leases. AAREIT's weighted average lease expiry was 3.16 years as of March 31, 2013, comparable to the industry average. We expect AAREIT's EBITDA margin will remain lower than that of the peers we rate, partially because the conversion of master leases to multi-tenant leases raised operating costs.

AAREIT benefits from supportive sponsors. AMP Capital, one of the two sponsors, has assisted the manager in delivering on its redevelopment projects and optimizing its debt management.

Following completion of phases 1 and 2, 20 Gul Way is one of the largest ramp-up warehouses in Singapore, with a four to five year master lease agreement with CWT Ltd., a provider of logistics solutions.

Financial Risk: Intermediate

We expect AAREIT's FFO-to-debt ratio to remain 11%-15% over the next two years. AAREIT's occupancy rate of 96% is higher than the industry average and supports the REIT's financial risk profile. We anticipate that AAREIT's occupancy rate will improve once it completes its redevelopment projects.

AAREIT's prudent debt management since the REIT's restructuring in December 2009 kept the debt-to-assets ratio below 34%. We believe AAREIT will maintain the ratio within its stated range of 30%-40%. AAREIT has enough headroom in its leverage (measured by ratio of debt to assets) to absorb dips in valuation, barring potential large debt-funded acquisitions or development projects.

AAREIT maintains a conservative approach to interest management, hedging 70%-80% of its floating rate debt. This approach is consistent with that of other peers.

Liquidity: Adequate

AAREIT's liquidity is "adequate," as defined in our criteria. We expect the REIT's ratio of liquidity sources to uses to be about 1.7x in fiscal 2014, but moderate in fiscal 2015.

We believe AAREIT has considerable headroom in the financial covenants in its bank loans over the next 12 months. Covenants include interest coverage of at least 2.5x and ratio of total debt to total assets of less than 45%.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Cash and equivalents balance of Singapore dollar(S\$) 2 million-S\$3 million as of March 31, 2013. Our estimate of FFO of about S\$45 million-S\$55 million in fiscal 2014. Private equity placement of about S\$110 million. Unused committed revolving facility of about S\$120 million. 	<ul style="list-style-type: none"> Capital expenditure of about S\$100 million-S\$120 million in fiscal 2014. Cash dividends of about S\$45 million-S\$55 million in fiscal 2014.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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