General Announcement::Fitch Assigns First-Time 'BBB' to Ascott Residence Trust; Outlook Stable

Issuer & Securities

Issuer/ Manager	ASCOTT RESIDENCE TRUST MANAGEMENT LIMITED
Securities	ASCOTT RESIDENCE TRUST - SG1T08929278 - A68U
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Announcement Details

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Designation	Company Secretary, Ascott Residence Trust Management Limited
Description (Please provide a detailed description of the event in the box below)	Fitch Ratings has assigned a "BBB" Long-Term Issuer Default Rating with Stable Outlook to Ascott Residence Trust ("Ascott REIT"). The agency has also assigned a "BBB" senior unsecured rating to Ascott REIT, and to its SGD 1 billion multicurrency outstanding medium term notes programme. Please see attached press release by Fitch Ratings for information.

Attachments	ART_FitchRatings.pdf Total size =115K

FitchRatings

Fitch Assigns First-Time 'BBB' to Ascott Residence Trust; Outlook Stable

Fitch Ratings-Singapore-25 September 2017: Fitch Ratings has assigned Ascott Residence Trust (ART) a Long-Term Issuer Default Rating (IDR) of 'BBB' with a Stable Outlook. The agency has also assigned a 'BBB' senior unsecured rating to ART, and to its SGD1 billion multicurrency outstanding medium-term notes programme. A full list of ratings can be found at the end of this commentary.

ART's 'BBB' Long-Term IDR is driven by its strong business risk profile, which is underpinned by its globally diversified portfolio of serviced residence properties. The portfolio has proven to be resilient across economic cycles and is supported by its significant minimum guaranteed rent income under its master leases and management contracts. Furthermore, ART's cash flow visibility is enhanced by the significant portion of its tenants that contract to stay for more than 12 months. ART's rating also benefits from its proven access to diverse sources of capital. These strengths are counterbalanced by the trust's smaller property portfolio compared with higher-rated peers.

The 'BBB' rating on ART's senior unsecured debt is driven by Fitch's view that the trust's senior unsecured creditors have only a limited risk of legal subordination from its secured creditors, so long as the ratio of unpledged assets to unsecured debt remains higher than 2.0x (end-2016: 2.9x). ART's medium-term notes are issued by Ascott REIT MTN Pte. Ltd., which is a subsidiary of ART, and are guaranteed by DBS Trustee Limited in its capacity as trustee of ART. The notes constitute direct, unconditional, unsubordinated and unsecured obligations of Ascott REIT MTN and the guarantor.

KEY RATING DRIVERS
Diversified Portfolio: ART maintained a high quality, geographically diversified portfolio of 73 serviced residences valued at SGD4.5 billion, as of 30 June 2017, across Europe, USA and Asia Pacific. The portfolio's geographical diversity supports its solid business risk profile. We estimate that no single country will account for more than 18% of ART's gross profits even after including estimated earnings from Ascott Orchard Singapore and Doubletree by Hilton New York Times Square South (Doubletree NYC), which are due to be acquired in 2H17. ART's 10 largest tenants (excluding its sponsor, The Ascott Limited (TAL), which master-leases some of its properties) accounted for 6%-9% of its apartment rental income in the last three years.

Significant Master-Lease Income: In 2016, 27% of ART's gross profits stemmed from master leases with fixed rentals and in most cases built-in annual rent escalations, while a further 13% of gross profit stemmed from management contracts with minimum guaranteed rental income. These contracts support the trust's income stability. Of the total master leases, 37% and 35%, based on percentage of gross rental income, are due for renewal in 2017 and 2018, respectively. However, we expect these contracts to be rolled over as a large majority of these are contracted with TAL.

ART has limited responsibility for the operating costs of master-leased properties, which supports higher EBITDA margins for its property portfolio compared with most global leisure and lodging companies. We expect ART to maintain a healthy mix of income from master leases and contracts with minimum income, and for EBITDA margin to remain above 40%.

Equity to Fund Expanding Portfolio: We expect ART's EBITDA to increase to SGD225 million by end-2017 upon completion of the acquisitions of Ascott Orchard Singapore and Doubletree NYC in 2H17, from SGD154 million in 2013. ART has annually issued either public or private equity, or equity-like perpetual securities, over the last five years to fund this growth and has maintained a loan/value ratio (LTV) of 40% or less. The trust has the right of first refusal to purchase TAL's properties, which supports its medium-term portfolio expansion. We believe ART's access to capital markets is partly a function of its association with its largest shareholder, CapitaLand Limited, which owns direct and deemed interest of approximately 44% of ART through its 100% stake in TAL.

Perpetual Securities Treated as Equity: Fitch has assigned 100% equity-credit to ART's perpetual securities of aggregate face value of SGD400 million, which were issued in 2014 and 2015. The securities provide strong going-concern and gone-concern loss absorption features. We understand that ART may choose to repay the perpetual securities with unsecured debt at its call date in the event that the trust's LTV falls considerably below its 40% target, although this is not our base case. We expect ART to remain acquisitive in line with its track record, and therefore management is expected to replace the perpetual securities with similar instruments or common equity. The above scenarios are compatible with Fitch's interpretation of permanence. The important aspect is that the hybrid capital will support the capital structure in a stress case.

Adequate Unencumbered Asset Coverage: At end-2016, ART's unencumbered assets/unsecured debt ratio stood at 2.9x. Fitch believes the unencumbered assets/unsecured debt ratio of 2.0x is the minimum level for investment grade real estate investment trusts to support strong financing flexibility and limit the subordination of unsecured creditors' interests. ART has significant financial flexibility as a significant decline of 32% in its property portfolio's value is needed to trigger its drop below the 2.0x threshold, all else remaining equal. The largest annual decline that ART experienced over the last 10 years was 2%, which occurred during the height of the global financial crisis in 2009.

DERIVATION SUMMARY
ART's 'BBB' rating sits well alongside peers such as CDL Hospitality Trusts (CDLHT, BBB-/Stable), Host Hotels & Resorts, Inc. (Host Inc, BBB/Stable) and Mapletree Industrial Trust (MIT, BBB+/Stable). ART has a significantly more granular and more geographically diversified property portfolio than CDLHT and has better cash flow visibility stemming from its long-stay tenant profile. These strengths, as well as ART's stronger capital market access, support a higher rating than CDLHT's, despite the latter's stronger financial profile.

Compared to Host Inc's portfolio of over 88 properties at end-2016, ART's portfolio of 73 properties is slightly smaller. However ART's portfolio is substantially more geographically diversified, whereas a large majority of Host Inc's properties are based in the USA. ART's global competitive position is enhanced beyond the scale of its own assets due to its access to its sponsor TAL's global marketing platforms. Furthermore, Host Inc's EBITDA margins are thinner, in the low to mid-20%, compared with ART's 40% plus margins, because Host Inc bears the entirety of its hotels' operating expenses while a significant portion of ART's revenue stems from master leases. Consequently, Host Inc's cash flows have proven to be more volatile during the last cyclical downturn compared with ART's. However, Host Inc's financial profile is stronger than ART's with higher fixed charge cover and a larger unencumbered asset pool that counterbalance these risks. Both REITs benefit from strong access to diverse sources of capital. Therefore, we believe that on balance, both REITs have a similar credit risk and are therefore rated the same.

MIT's higher rating compared with ART stems primarily from the more stable cash flows afforded by the medium-term revenue visibility of its 100%-leased industrial property portfolio, with average contract duration of around three years. MIT's industrial property portfolio has 86 properties across five segments and has maintained strong occupancy of more than 90% since its listing in 2010. This offsets the risks stemming from MIT's geographical concentration in Singapore. MIT also has a stronger financial profile compared with ART and has solid capital market access.

KEY ASSUMPTIONS
Fitch's key assumptions within our rating case for the issuer include:
- ART completes its announced acquisitions as planned in 2H17
- Revenue growth of around 11% in 2017 and 10% in 2018 mostly led by the announced acquisitions
- ART will remain acquisitive in line with its track record over the last few years, and maintain portfolio LTV at around 40%
- EBITDA margins will remain above 40%, which is driven by a healthy mix of master-leases and management contracts with minimum rent
- ART will roll over or replace its perpetual securities with similar instruments or common equity at its first call dates in October 2019 and June 2020

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
- We do not expect ART's ratings to be upgraded in the medium term because the demand for its properties is more cyclical than demand for most other mainstream commercial real estate assets such as industrial, retail and office properties, and because ART's revenue visibility is considerably shorter.
Over the longer term an upgrade may result from a substantial increase in ART's portfolio size and granularity, such that the demand cyclicality is sufficiently mitigated on a portfolio basis, without a deterioration in its current financial profile.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Funds flow from operations (FFO) fixed charge cover sustained at less than 2.5x (2017F: 2.9x, 2018F: 3.1x)
- LTV sustained above 40% and FFO adjusted net leverage sustained above 8.5x
- A sustained decline in EBITDA, combined with weakening in EBITDA margin to below 40%

LIQUIDITY
Strong Market Access Supports Liquidity: ART's proven access to diverse sources of capital supports its liquidity and mitigates its refinancing risk. At end-2016, ART had SGD143 million of unrestricted cash and SGD528.7 million of unutilised credit facilities at its disposal, which can comfortably fund its 2017 debt maturities of SGD147.3 million, as well as our projections for the trust's negative free cash flow of around SGD40 million.

FULL LIST OF RATING ACTIONS

Ascott Residence Trust
--Long-Term IDR assigned at 'BBB'; Outlook Stable;
--Long-term rating on senior unsecured debt assigned at 'BBB';

Ascott REIT MTN Pte. Ltd.
--Long-term rating on SGD1 billion multicurrency medium-term note programme assigned at 'BBB';
--Long-term rating on SGD200 million unsecured 4.20% notes due 2022 assigned at 'BBB';
--Long-term rating on SGD120 million 4% unsecured notes due 2024 assigned at 'BBB'

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
Non-Financial Corporates Hybrids Treatment and Notching Criteria (pub. 27 Apr 2017) (https://www.fitchratings.com/site/re/896881)
Non-Financial Corporates Notching and Recovery Ratings Criteria (pub. 16 Jun 2017) (https://www.fitchratings.com/site/re/899659)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1029622)
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Solicitation Status

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