

CapitaLand Ascott Trust (CLAS SP)

ESG bellwether

Highest ESG2.0 score among hospitality REITs

CLAS leads the sector pack with the highest ESG 2.0 score of 69. It is setting the benchmark due to commencement of green leasing and green financing. Further, higher usage of renewable energy and recycled water, improvement in energy and water intensity and superior composition of board has also helped the relative scoring. That said, work place safety and diversity can be improved further. We like CLAS' diversified portfolio, concentrated longer-stay assets and a strong balance sheet. BUY.

Raising the bar globally

CLAS is the first hospitality trust in Singapore to secure a green loan. In April 2022, CLAS became the first hospitality trust globally and the first REIT in Singapore to launch a sustainability-linked bond. It launched a second such bond in Oct, in partnership with International Finance Corporation. Since this year, green lease clauses are being progressively incorporated into the tenant agreements. It has maintained its global sector leader position within listed hotels in GRESB ranking. It is the only listed hospitality trust in Asia Pacific to receive the highest 5-star GRESB rating. The manager targets to green half of the portfolio by the end of 2025 and 100% by 2030 vs. 35% as of Sep 2022.

Tailwinds from reopening and acquisitions

Portfolio RevPAU rose 88% YoY in 3Q due to higher occupancy and average daily rates. CLAS is poised to benefit further from Japan's reopening to independent travellers and improving outlook for travel demand in China once it lifts restrictions. In fact, RevPAU is still 13% shy of pre-pandemic levels. Apart from organic growth, CLAS has ample financial flexibility to pursue M&As. It has debt headroom of SGD2b and SGD1.2b of available funds. Management seeks higher exposure to long-stay assets such as rental housing and student accommodation, which accounts for 17% of 1H22 AUM vs. mid-term 25-30% target.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	370	394	591	694	786
Net property income	150	173	232	271	304
Core net profit	112	31	120	141	157
Core EPU (cts)	3.6	1.0	3.6	4.3	4.8
Core EPU growth (%)	(57.9)	(72.9)	272.6	17.3	11.4
DPU (cts)	3.0	4.3	5.3	5.9	6.4
DPU growth (%)	(60.0)	42.8	22.2	11.8	8.2
P/NTA (x)	0.9	0.8	0.8	0.9	0.9
DPU yield (%)	2.8	4.2	5.7	6.4	6.9
ROAE (%)	(5.0)	8.0	2.7	3.3	3.8
ROAA (%)	1.5	0.4	1.6	1.8	2.0
Debt/Assets (x)	0.34	0.35	0.39	0.41	0.42
Consensus DPU	-	-	5.5	6.3	6.9
MKE vs. Consensus (%)	-	-	(3.4)	(5.4)	(6.9)

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BUY

Share Price	SGD 0.94
12m Price Target	SGD 1.40 (+55%)
Previous Price Target	SGD 1.40

Company Description

Ascott Residence Trust invests in income-producing hospitality real estate and other properties.

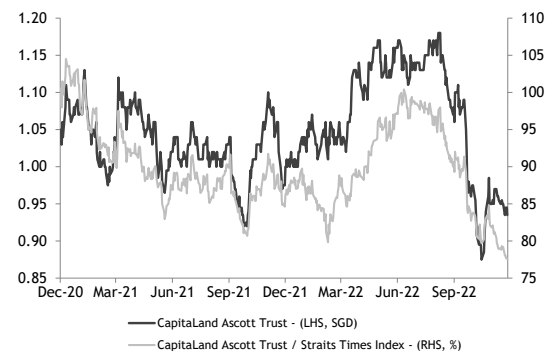
Statistics

52w high/low (SGD)	1.18/0.88
3m avg turnover (USDm)	5.7
Free float (%)	57.2
Issued shares (m)	3,117
Market capitalisation	SGD2.9B
	USD2.2B

Major shareholders:

CapitaLand Ltd.	40.5%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(13)	(4)
Relative to index (%)	(9)	(15)	(9)

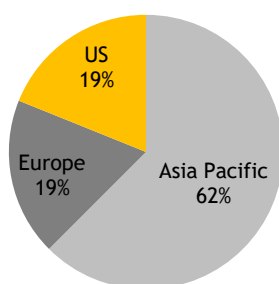
Source: FactSet

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Tear Sheet Insert

Value Proposition

- Sponsor Ascott has a global footprint of about 135,000 units, and is targeting for 160,000 units by 2023.
- Portfolio has increased nine-fold since listing in Mar 2006 to 17,000 serviced residence (SR), hotel, rental housing, and student accommodation units in gateway cities, mostly through acquisitions then rebranded under its own Ascott, Citadines & Somerset brands.
- DPU growth to be further supported by rising contribution of stable income assets, which include student accommodation and rental housing properties.
- Merger with AHT has boosted AUM and strengthened growth profile with stable-income properties.

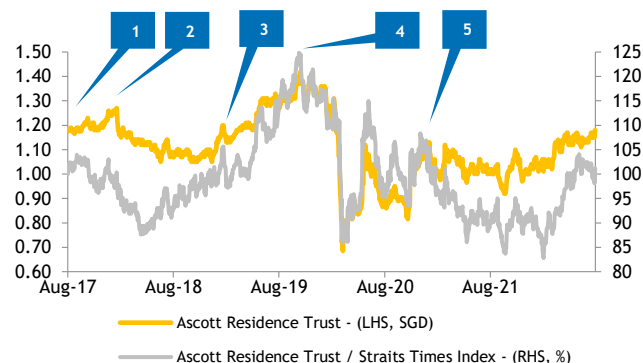
AUM profile (as of end-Dec 2021)



Source: Company

Price Drivers

Historical share price trend



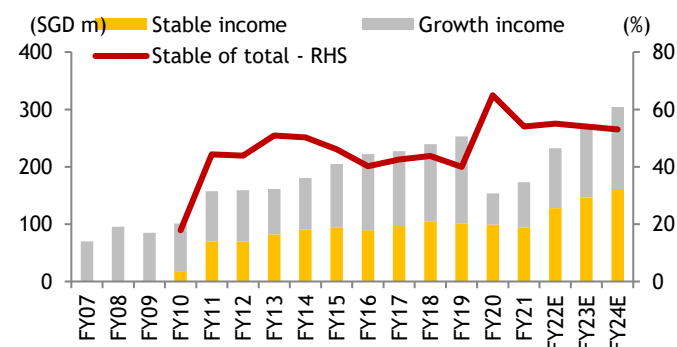
Source: Company, Maybank IBG Research

1. Jul-17: Its sponsor acquired additional 60% stake in Quest Apartment Hotels in Australia for AUD180m or SGD191m and 80% stake in Synergy Global Housing in US.
2. Oct-17: Completed SGD405m acquisition of 220-unit Ascott Orchard Singapore from its affiliates.
3. Jan-19: Divested Ascott Raffles Place for SGD353.3m, or 64.3% above its last valuation.
4. Jul-19: Announced merger with AHT to create Asia's largest hospitality REIT with a SGD7.6b AUM.
5. Jan-21: Expanded investment mandate into student accommodation, together with maiden acquisition of 183 units in Atlanta, US, at 4.4% DPU accretion.

Financial Metrics

- AHT merger has boosted stable income contribution to support DPUs.
- We are forecasting broad-based RevPAR growth of 20-40% pa for FY21-23E.
- Aggregate leverage low at c.38% and SGD1.8b debt headroom could support acquisition growth and DPU upside.

Gross profit by income stream



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in corporate demand.
- Better-than-anticipated RevPAUs.
- Accretive acquisitions where cap rates exceed cost of funds, or divestments at low cap rates which unlock asset values.

Downside

- Sizeable increases in serviced residence supply without corresponding growth in demand.
- Deterioration in global economy, resulting in declines in RevPAUs.
- Significant FX volatility could impede hedging and affect DPUs.
- Sharper-than-expected rise in interest rates could increase cost of debt and affect earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score ¹	N/A
Score Momentum ²	N/A
Last Updated	02 Dec 2022
Controversy Score ³ (Updated: 02 Dec 2022)	N/A

Business Model & Industry Issues

- ART invests in serviced residences, rental housing properties and other hospitality-related assets, undertakes AEs, and redevelops properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are regulated by the MAS under Singapore’s code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- Participated for the first time in the Global Real Estate Sustainability Benchmark (GRESB) in FY21 and received a 4-star rating and scored ‘A’ for public disclosure; was also named ‘Global Sector Leader - Hotel’, and was first ranked in the ‘APAC Hotel - Listed’ category.

Material E issues

- About 35% of its portfolio (by GFA) is green-certified (vs 33% in FY20), while it continues to implement energy and water conservation measures across its assets.
- Has achieved 40% reduction in carbon emissions intensity since FY08, to align with its sponsor, which has set science-based goals for a ‘well-below 2° C’ scenario and raised its 2030 targets for carbon emissions, energy and water in FY20.
- Was the first hospitality S-REIT to secure a green loan (of SGD50m in Jan 2021), to finance its maiden development project and co-living property (lyf one-north in Singapore), and also the first hospitality trust globally to launch a sustainability-linked bond (of SGD200m in Apr 2022).
- 100% of the energy procured by its properties in Belgium, Germany and the UK are from renewable sources.

Material S issues

- Has together with its parent Ascott, been accommodating returning nationals, workers affected by border closures, healthcare professionals and those seeking alternative work-from-home arrangements due to the pandemic.
- Reported an average of 40 hours training per staff in FY21, vs 48 hours in FY20, similar to FY19, and down from 54 hours in 2018.
- Gender diversity is high, with female representation at 52% amongst all employees, and 75% at the management level including the CEO.
- Its global team participates regularly in various charitable activities organised by CapitaLand Hope Foundation, its sponsor’s philanthropic arm.
- Regular employee engagement initiatives like its sponsor’s global LIFE Heartware awards, aim to recognise staff who have consistently demonstrated exemplary service.

Key G metrics and issues

- A stapled group, managed externally by wholly-owned subsidiaries of its sponsor CapitaLand, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is fairly high - 4 of its 7 members, including the Chairman are independent, and the CEO is the only executive and non-independent member.
- Management fee structure, with a base fee at 0.3% of property values, performance fee at 4.0% pa of gross profit (+1% of YoY difference if gross profit >6.0% pa), and acquisition and disposal fee at 1.0% and 0.5% enterprise value, is comparable to peers.
- The cumulative remuneration of its key management team including the CEO has represented <1.6% of the REIT’s distributable income when this was first reported in FY16.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency.
- Has scaled up its portfolio via a balanced combination of stable income (master leases and management contracts with minimum guaranteed income) and growth-income sources (management contracts).
- Developed markets contributed >75% of its EBITDA in FY18 and FY19.
- Its merger with Ascendas Hospitality Trust in 2019 resulted in a SGD7.4b AUM, inclusion in the FTSE EPRA Nareit Global Real Estate Index Series (Global Developed Index) on 22 Jun 2020, and higher trading liquidity.
- Has successfully recycled assets, by divesting at c.2% exit yield, then investing at c.5% EBITDA yield on average, to unlock SGD225m in gains from FY20-21.
- Ranked 1st amongst REITs and business trusts in the Singapore Governance and Transparency Index 2021.
- Maintains a strong balance sheet - leverage has averaged 32% between FY17-21.

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).

Quantitative Parameters (Score: 39)						
	Particulars	Unit	2019	2020	2021	FEHT SP (2021)
E	Scope 1 GHG emissions	m tCO2e	2670	1915	2040	212
	Scope 2 GHG emissions	m tCO2e	37422	29522	25801	13928
	Total	m tCO2e	40093	31437	27841	14140
	Scope 3 GHG emissions	m tCO2e	N/A	N/A	N/A	N/A
	Total	m tCO2e	40093	31437	27841	14140
	GHG intensity (Scope 1 and 2)	kgCO2e/m2	N/A	N/A	N/A	60
	Energy intensity	kWh/sqm	N/A	N/A	N/A	155.2
	Share of renewable energy use in operations	%	1.3	1.9	6.2	N/A
	Water intensity	m3/m2	N/A	N/A	N/A	1.87
	Share of recycled water use in operations	%	1.4	1.4	1.5	N/A
S	Number of green certified buildings	number	6	21	21	5
	% green certified	%	N/A	N/A	33	N/A
S	% of women in workforce	%	53	53	52	62.5
	% of women in management roles	%	N/A	N/A	N/A	N/A
	Work-related injury rate	%	N/A	2.3	2.8	N/A
	Work-related fatality	number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	N/A	N/A	N/A	2.27
	Board salary as % of reported net profit	%	0.23	0.68	0.62	1.51
	Independent directors on the Board	%	57	55.5	62.5	66.7
	Female directors on the Board	%	28.6	22.2	25	50

Qualitative Parameters (Score: 100)

- a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes - as part of CapitalLand Investment Limited, it follows the group level 2030 Sustainability Master Plan. On trust level, it has an Sustainability Committee led by the CEO.
- b) is the senior management salary linked to fulfilling ESG targets?
Yes - in FY21, sustainability KPIs were part of the Balanced Scorecard framework in Key Management Personnel's performance appraisals.
- c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? - *Yes*
- d) Does the company do green leasing or has plans to start green leasing or participate in GRESB real estate assessment? - *Yes*
- e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
(1) In 2018, Ascott signed a Memorandum of Understanding with IFC to pioneer a green certification for the serviced residence industry, as part of the IFC's Excellence in Design for Greater Efficiencies (EDGE) programme. (2) ART will pioneer a market study to establish green certification typologies for niche real estate asset classes such as rental housing and student accommodation properties. (3) Ascott has reduced the use of single-use plastics at its properties, including replacing plastic bottled water, laundry bags and amenities with environmentally friendly alternatives.
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?
Yes

Target (Score: 100)

Particulars	Target	Achieved
Reduce Scope 1 & 2 GHG emissions (tonnes) by 2030 vs 2008 baseline	78%	40%
Reduce energy intensity by 2030 vs 2008 baseline	35%	25%
Increase % of renewable energy use in properties	35%	4.30%
Achieve green certification for % portfolio by 2025	50%	35%
Reduce water consumption intensity (vs 2008)	45%	45%
Improve recycling rate in its day-to-day operations	25%	8.10%
Annual ISO 14001 certification for Environmental Management System (EMS)	Maintain	Achieved

Impact

NA

Overall Score: 69

As per our ESG matrix, Ascott Residence Trust (ART:SP) has an overall score of 69.

ESG score	Weights	Scores	Final Score
Quantitative	50%	39	19
Qualitative	25%	100	25
Target	25%	100	25
Total			69

We recognize ART's efforts in reducing GHG, energy and water intensity, and its leading role in setting green certification standards for the hospitality industry. We note that ART could improve its quantitative metrics disclosure. ART has an overall ESG score of 69, which makes its ESG rating above average.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Price/DPU(x)	35.5	23.7	17.6	15.7	14.6
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.8	0.8	0.9	0.9
DPU yield (%)	2.8	4.2	5.7	6.4	6.9
FCF yield (%)	1.3	1.2	6.0	7.0	7.9
INCOME STATEMENT (SGD m)					
Revenue	369.9	394.4	590.8	693.9	786.3
Net property income	149.6	173.3	232.4	271.2	303.9
Management and trustee fees	(26.0)	(25.6)	(29.4)	(31.4)	(33.1)
Net financing costs	(60.1)	(56.0)	(69.6)	(80.8)	(91.9)
Associates & JV	0.6	16.4	(0.2)	(0.2)	(0.2)
Exceptionals	(326.7)	300.5	0.0	0.0	0.0
Other pretax income/expenses	2.0	3.1	3.1	3.1	3.1
Pretax profit	(249.0)	393.9	136.3	161.9	181.7
Income tax	42.7	(64.5)	(27.3)	(32.4)	(36.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	2.0	2.0	2.0	2.0	2.0
Total return avail to unitholders	(206.4)	329.4	109.1	129.5	145.4
Core net profit	111.8	31.0	119.7	140.7	157.1
Distributable inc to unitholders	94.2	137.3	174.2	195.2	211.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	486.7	346.3	318.8	291.3	326.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	609.3	624.8	624.8	624.8	624.8
Investment properties	5,917.6	6,600.7	6,475.4	6,615.9	6,748.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	3.0	16.8	16.8	16.8	16.8
Other assets	147.2	144.6	144.6	144.6	144.6
Total assets	7,163.8	7,733.2	7,580.5	7,693.5	7,860.8
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	185.5	166.6	166.6	166.6	166.6
LT interest bearing debt	2,462.5	2,728.9	2,928.9	3,128.9	3,328.9
Other liabilities	473.8	470.0	470.0	470.0	470.0
Total Liabilities	3,121.8	3,365.5	3,565.5	3,765.5	3,965.5
Shareholders Equity	3,963.5	4,287.2	3,934.4	3,847.4	3,814.7
Minority Interest	78.5	80.6	80.6	80.6	80.6
Total shareholder equity	4,042.1	4,367.7	4,014.9	3,928.0	3,895.3
Total liabilities and equity	7,163.8	7,733.2	7,580.5	7,693.5	7,860.8
CASH FLOW (SGD m)					
Cash flow from operations	74.1	145.6	184.4	216.6	244.2
Capex	(31.3)	(106.9)	0.0	0.0	0.0
Acquisitions & investments	327.1	(434.5)	(157.5)	(157.5)	(95.0)
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	0.3	2.8	2.8	2.8	2.8
CF from investing activities	296.1	(538.6)	(154.7)	(154.7)	(92.2)
Dividends paid	(137.2)	(142.5)	(174.2)	(195.2)	(211.6)
Interest expense	(54.6)	(51.9)	(69.6)	(80.8)	(91.9)
Change in debt	44.6	319.4	200.0	200.0	200.0
Equity raised / (purchased)	0.0	148.1	0.0	0.0	0.0
Other financial activities	(19.3)	(14.4)	(13.5)	(13.5)	(13.5)
CF from financing activities	(166.5)	258.6	(57.3)	(89.5)	(117.1)
Effect of exchange rate changes	10.3	(3.3)	0.0	0.0	0.0
Net cash flow	214.0	(137.6)	(27.5)	(27.5)	35.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(28.2)	6.6	49.8	17.4	13.3
Net property income growth	(40.8)	15.8	34.1	16.7	12.1
Core net profit growth	(40.0)	(72.3)	286.7	17.6	11.7
Distributable income growth	(43.1)	45.7	26.8	12.1	8.4
Profitability ratios (%)					
Net property income margin	40.4	43.9	39.3	39.1	38.7
Core net profit margin	30.2	7.8	20.3	20.3	20.0
Payout ratio	84.3	nm	145.5	138.7	134.7
DuPont analysis					
Total return margin (%)	nm	83.5	18.5	18.7	18.5
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.9	2.0	2.1
ROAE (%)	(5.0)	8.0	2.7	3.3	3.8
ROAA (%)	1.5	0.4	1.6	1.8	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.1	2.0	2.0
Net gearing (%) (excl. perps)	48.9	54.6	65.0	72.2	77.1
Net interest cover (x)	2.3	2.3	2.9	3.0	2.9
Debt/EBITDA (x)	18.2	nm	14.4	13.0	12.3
Capex/revenue (%)	8.5	27.1	0.0	0.0	0.0
Net debt/ (net cash)	1,975.8	2,382.6	2,610.1	2,837.6	3,002.6
Debt/Assets (x)	0.34	0.35	0.39	0.41	0.42

Source: Company; Maybank IBG Research

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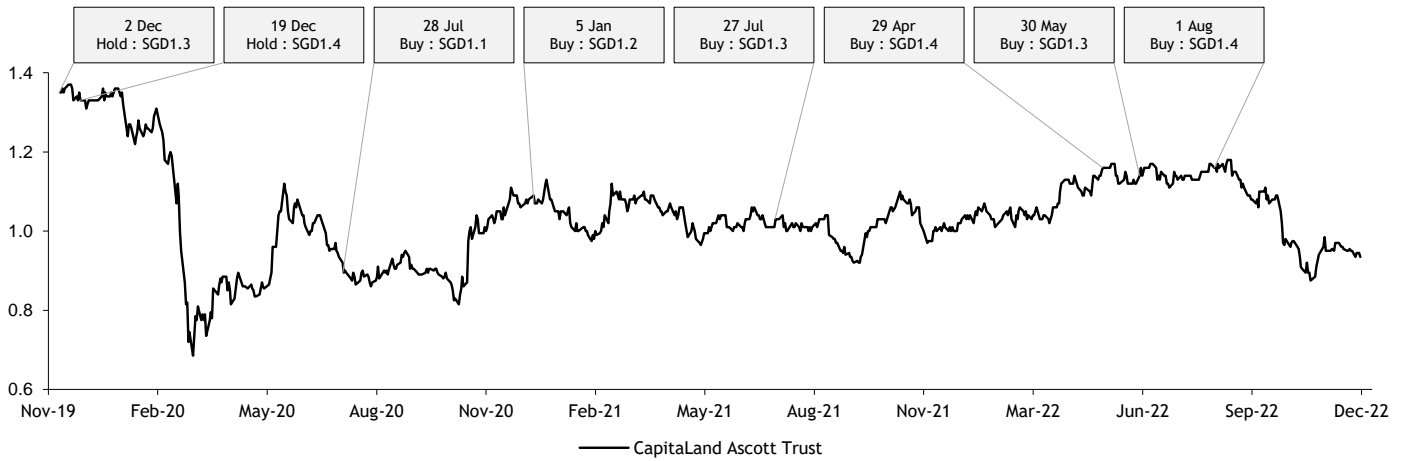
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