

# Thailand REITs

**POSITIVE** [Upgrade]

## Stabilising interest rates positive for REITs

### U/G sector to POSITIVE; CPNREIT is Top Pick

We U/G the sector weighting to POSITIVE from NEUTRAL as stabilising interest rates should be supportive of REIT/Infrastructure fund price performance. After seven interest rate hikes, we expect the central bank (BoT) to keep the policy rate unchanged at 2.25% at its 27 Sep meeting. We forecast annual dividend yields at c.10% for CPNREIT, DIF and JASIF over the next 10 years. Our Top Pick is CPNREIT due to higher profit growth upside, longer lease duration (22 years) and a diversified portfolio of tenants.

#### Analyst

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### Rate hike pause should be positive for yield plays

The BoT has raised its policy interest rate seven times since Aug 2022, resulting in share price declines for REITs and infra funds. From Aug-22 to Aug-23, CPNREIT, DIF and JASIF displayed negative total returns (capital losses and dividend yields) of 39%, 26% and 10%, respectively. With the inflation rate below the BoT's target range of 1-3% since May'23, Maybank economists expect the BoT to keep its policy rate unchanged at 2.25% at its 27-Sep meeting. We see a stabilising policy rate resulting in positive total returns for the three yield plays under our coverage.

### 10% FY24E yields for CPNREIT, DIF and JASIF

CPNREIT, DIF and JASIF offer FY24E dividend yields of 10%. We forecast dividend yields for the three counters to be in the range of 9-11% in the next 10 years. We project IRR of 8.1%/9.5%/6.7% for CPNREIT/DIF/JASIF. CPNREIT has NLA-weighted lease duration of 22 years (vs average lease durations of 16 years at DIF and 15 years at JASIF).

### CPNREIT is Top Pick

We prefer CPNREIT over DIF and JASIF due to its longer lease duration, higher growth upside and diversified portfolio of tenants. CPNREIT has more upside to profit growth as 37% of its leasable areas are under revenue-sharing contracts; more customer traffic in shopping malls could lead to higher revenue for tenants and CPNREIT. In contrast, rental income at DIF and JASIF is already fixed under long-term lease agreements with TRUE and TTTBB, respectively. Also, CPNREIT has a diversified portfolio of over 1,000 tenants (vs only one tenant each for DIF and JASIF), implying low risk of drastic revenue decline due to a change/termination of one rental contract.

#### Terms defined

BoT - Bank of Thailand  
NLA - net leasable area  
TTTBB- Triple T Broadband  
NBTC - The National Broadcasting and Telecommunications Commission

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Digital Telecomn	DIF TB	2,759	Buy	9.25	12.50	45	8.3	8.3	0.6	0.6	10.2	9.9
Jasmine Broadba	JASIF TB	1,515	Hold	6.75	6.55	7	6.6	9.0	0.6	0.6	11.4	10.2
CPN REIT	CPNREIT TB	778	Buy	10.80	11.80	19	14.0	16.6	0.8	0.9	10.3	10.4

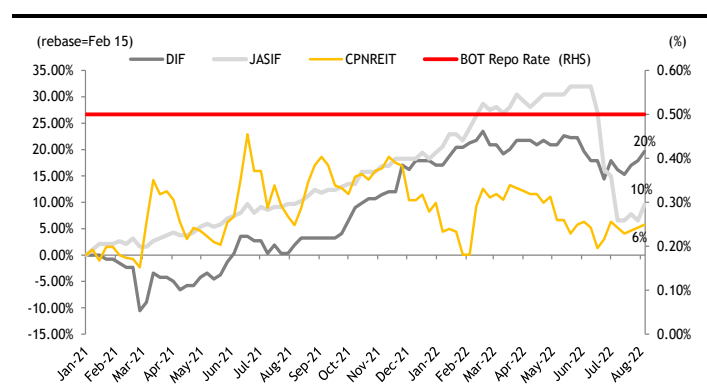
## Rate-hike pause positive for yield plays

### Stable interest rates should support returns

The BoT has raised its policy interest rate seven times since Aug 2022, resulting in share price declines for REITs and infra funds. From Aug'22 to Aug'23, CPNREIT, DIF and JASIF have shown negative total return (capital losses and dividend) of 39%, 26% and 10%, respectively.

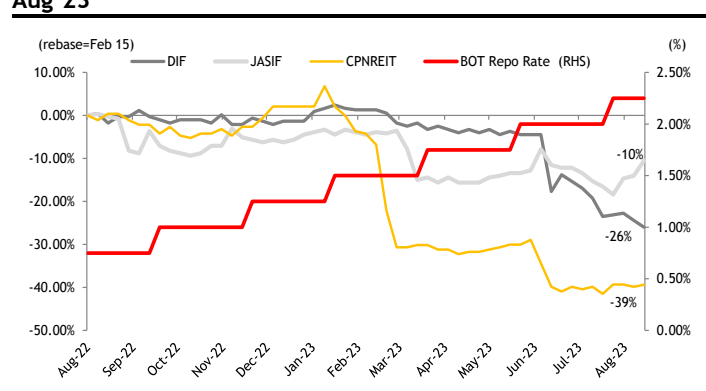
In contrast, the BoT's policy rate had been stable at 0.5% from Jan'21 to Aug'22. During that period, CPNREIT, DIF and JASIF have shown positive total return of 6%, 20% and 10%, respectively.

**Fig 1: Stable policy interest rate has led to positive total return (capital gains and dividend yields) for CPNREIT, DIF and JASIF from Jan'21 to Aug'22**



Source: Bloomberg, MST

**Fig 2: BoT has raised its policy interest rate seven times since Aug 2022, resulting in negative total returns (capital losses and dividend yields) for CPNREIT, DIF and JASIF from Aug'22 to Aug'23**



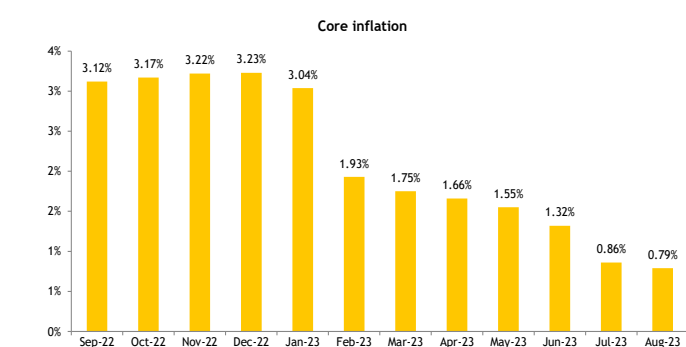
Source: Bloomberg, MST

### Rate-hike pause expected at upcoming BoT meeting

With inflation rates below the BoT's target range of 1-3% since May'23, Maybank economists expect the BoT to keep its policy rate unchanged at 2.25% at the 27-Sep meeting. We believe a stable policy rate environment will be conducive to positive total returns for the three yield plays under our coverage.

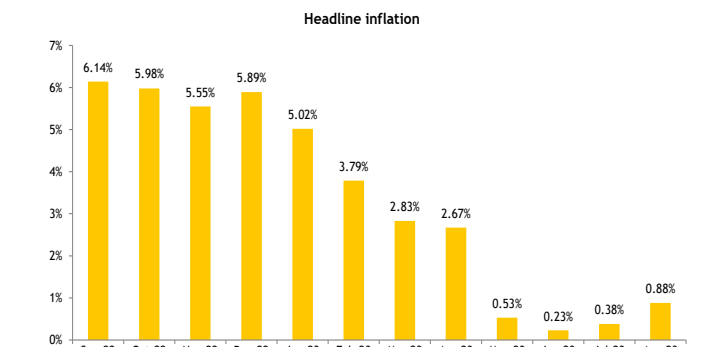
On 5 Sep, BoT Governor Sethaput Suthiwartnarueput said that the central banks' GDP growth and inflation forecasts for 2023 would be revised down from the current projections of 3.6% and 2.5%, respectively, at the BoT's next review.

**Fig 3: Thailand's core inflation**



Source: Maybank IBG Research

**Fig 4: Thailand's headline inflation**



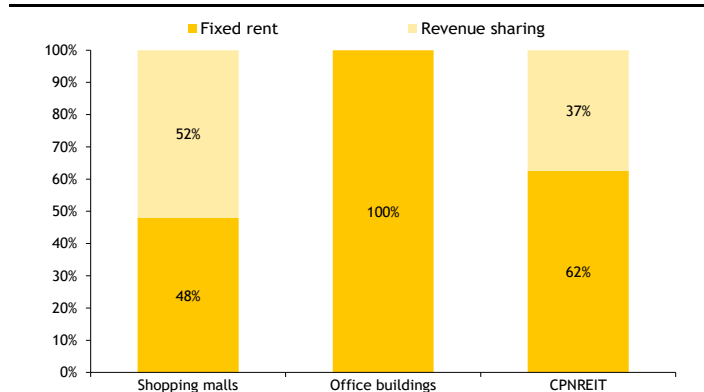
Source: Maybank IBG Research

## CPNREIT [BUY, THB11.80 TP] - favourite yield play

CPNREIT offers 10-11% dividend yields over the next 12 years (FY23-34E), IRR of 8.1% and NLA-weighted average lease duration of 22 years. We prefer CPNREIT over DIF and JASIF due to longer lease duration (vs 15-16 years of average lease duration at JASIF and DIF), higher growth upside and for their diversified portfolio of tenants.

CPNREIT has more upside to profit growth as 37% of its leasable areas in 2Q23 are under revenue-sharing contracts; more customer traffic to shopping malls could lead to higher revenue for tenants and CPNREIT. In contrast, rental income at DIF and JASIF is already fixed under long-term lease agreements with TRUE and TTTBB, respectively. Also, CPNREIT has a diversified portfolio of over 1,000 tenants, implying low risk of drastic revenue decline due to a change/termination of one rental contract. On the other hand, DIF and JASIF rely on one tenant each for their revenue streams.

Fig 5: CPNREIT's rental structure (as % of NLA)



Source: Company, MST

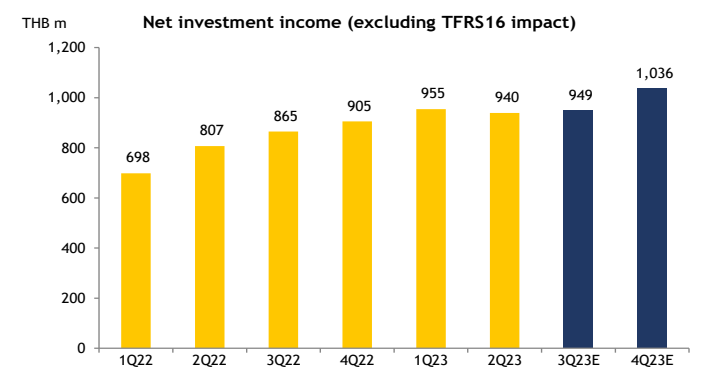
Fig 6: CPNREIT's earnings summary table

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,502	4,864	5,848	5,690	7,032
Net property income	3,252	4,536	5,268	5,115	5,980
Core net profit	377	1,393	1,985	1,675	2,719
Core EPU (THB)	0.15	0.54	0.77	0.65	0.76
Core EPU growth (%)	(78.3)	262.0	42.5	(15.6)	16.8
DPU (THB)	0.60	1.14	1.11	1.12	1.13
DPU growth (%)	(32.0)	88.5	(2.4)	0.9	0.9
P/NTA (x)	1.5	1.5	0.8	0.6	1.0
DPU yield (%)	3.0	5.8	10.3	10.4	10.5
ROAE (%)	2.8	6.3	9.2	5.2	0.1
ROAA (%)	0.5	1.7	2.4	1.9	3.0
Debt/Assets (x)	0.29	0.29	0.27	0.25	0.46
Consensus DPU	-	-	1.11	1.12	1.13
MIBG vs. Consensus (%)	-	-	0.0	0.0	0.4

Source: Company, MST

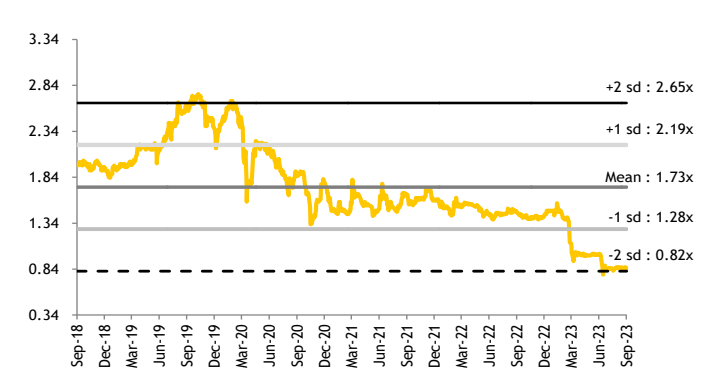
For CPNREIT, we expect 3Q23E net investment income to be stable QoQ. Then, we forecast 4Q23E net investment income at THB1.0b (+14% YoY, +9% QoQ) thanks to high season for public events, rising tourist arrivals and strong consumer confidence. A growth driver for tourist arrivals in 2H23E should be China (i.e. 30% QoQ jump in flight capacity in 3Q23E and 5-month visa waivers, starting on 25 Sep) while consumer confidence should be supported by the recent appointment of a stable government.

Fig 7: We forecast 4Q23E net investment income at THB1.0b (+14% YoY, +9% QoQ) for CPNREIT



Source: Company, MST

Fig 8: CPNREIT is trading at 0.84x P/NAV, which is approximately 2 s.d. below the 5-year mean of 1.73x



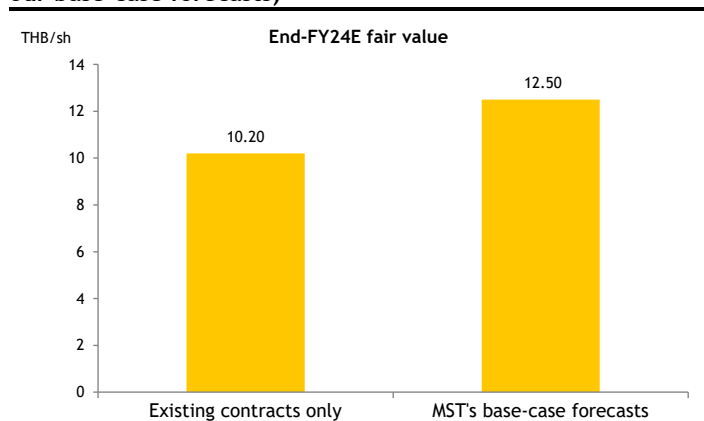
Source: Bloomberg, MST

## DIF [BUY, THB12.50 TP] - stable yields of 10%

We have a BUY call on DIF due to 10% yields over the next 10 years (FY23-32E) and cheap valuation. DIF's existing lease contracts imply a fair value of THB10.2/sh, 10% higher than the market price of THB9.25/sh. The leases have revenue-weighted-average lease duration of 16 years, comprising 20 years for fibre (67% of annual revenue) and 10 years for towers (30% of annual revenue). Under the scenario of no lease extensions, DIF offers 6.8% IRR.

Our DCF-based target price of THB12.5 assumes partial lease extensions. Our forecasts imply IRR of 9.5%.

**Fig 9: DCF-based fair values for DIF (existing contracts only vs our base-case forecasts)**



Source: Company, MST

**Fig 10: DIF's earnings summary table**

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	14,727	14,406	14,255	14,120	14,326
EBITDA	14,375	14,053	13,901	13,761	13,874
Core net profit	12,669	12,335	11,822	11,807	11,937
Core EPS (THB)	1.19	1.16	1.11	1.11	1.12
Core EPS growth (%)	2.1	(2.6)	(4.2)	(0.1)	1.1
Net DPS (THB)	1.04	1.03	0.94	0.91	0.91
Core P/E (x)	11.7	11.4	8.3	8.3	8.2
P/BV (x)	0.8	0.8	0.6	0.6	0.6
Net dividend yield (%)	7.5	7.8	10.2	9.9	9.8
ROAE (%)	7.4	4.3	6.4	6.4	6.4
ROAA (%)	5.7	5.6	5.4	5.4	5.4
EV/EBITDA (x)	11.9	11.6	8.1	8.1	7.9
Net gearing (%) (incl perps)	13.0	13.1	8.1	7.1	6.0
Consensus net profit	-	-	12,174	11,960	11,728
MIBG vs. Consensus (%)	-	-	(8.7)	(7.2)	(4.3)

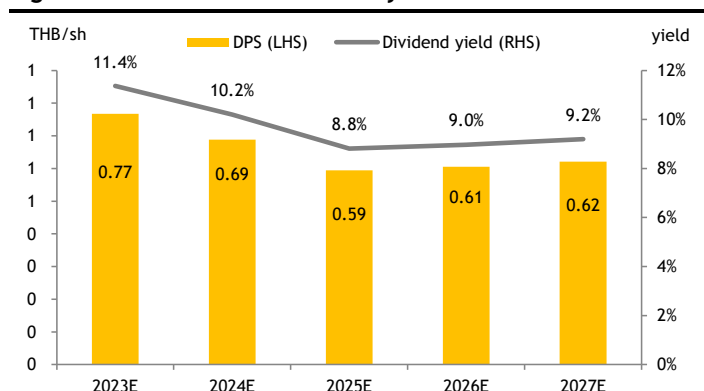
Source: Company, MST

## JASIF [HOLD, THB6.55 TP] - 9-11% yields with upside risk from longer debt repayment term

Our HOLD call on JASIF is supported by FY24E dividend yield of 10% and IRR of 6.7%. The new lease agreement (approved by the unitholders on 23 Aug) will last until Dec 2038, implying 15 years of remaining lease. The upside risk to JASIF's IRR is longer debt repayment term with lower annual instalment; this would allow JASIF to pay higher DPU in the first seven years of the lease contracts (pre-2031) and thus improve IRR.

We believe BBL will consider extending the debt repayment term after: i) JASIF unitholders approved longer lease duration on 23 Aug; and ii) ADVANC acquires TTTBB (100% stake) and JASIF (19% stake). We expect the acquisitions of TTTBB and JASIF to be approved by the NBTC in 4Q23E.

**Fig 11: JASIF's DPU and dividend yields**



Source: Maybank IBG Research

**Fig 12: JASIF's earnings summary table**

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	10,144	10,269	9,768	7,523	7,704
EBITDA	9,510	9,591	9,055	6,795	6,956
Core net profit	8,730	8,850	8,203	5,999	6,259
Core EPS (THB)	1.09	1.11	1.03	0.75	0.78
Core EPS growth (%)	1.5	1.4	(7.3)	(26.9)	4.3
Net DPS (THB)	0.95	0.92	0.77	0.69	0.59
Core P/E (x)	9.4	7.3	6.6	9.0	8.6
P/BV (x)	0.9	0.8	0.6	0.6	0.6
Net dividend yield (%)	9.2	11.4	11.4	10.2	8.8
ROAE (%)	9.0	4.2	5.3	7.2	7.4
ROAA (%)	8.3	8.7	8.4	6.3	6.6
EV/EBITDA (x)	10.1	8.1	7.3	9.5	9.1
Net gearing (%) (incl perps)	15.9	15.3	14.5	12.8	10.8
Consensus net profit	-	-	3,862	5,999	6,144
MIBG vs. Consensus (%)	-	-	16.6	0.0	1.9

Source: Maybank IBG Research

# CPN Retail Growth REIT (CPNREIT TB)

## Our favourite yield play

### Reiterate BUY with a higher TP of THB11.8

We reiterate BUY on CPNREIT due to 10-11% dividend yields over the next 12 years (FY23-34E), 8.1% IRR, and NLA-weighted average lease duration of 22 years (including upcoming lease extensions). We raise our DCF-based TP to THB11.8 from THB11.0 after trimming WACC to 5.6%. Potential re-rating catalyst is strong 4Q23 net investment income (+14% YoY, +9% QoQ).

### Strong 4Q23E profit outlook

While we expect 3Q23E net investment income to be stable QoQ, 4Q23E net investment income (excluding TFRS16 impact) should be robust at THB1.0b (+14% YoY, +9% QoQ) thanks to high season of public events, rising tourist arrivals and strong consumer confidence. A growth driver for tourist arrivals in 2H23E should be China (i.e. 30% QoQ jump in flight capacity in 3Q23E and 5-month visa waivers, starting on 25 Sep) while consumer confidence should be supported by the recent appointment of a stable government.

### 10-11% dividend yields over next 12 years

Although we expect FY24E net investment income to drop 4% YoY (due to rental discount during the renovation of Central Pinklao), FY24E DPU should be stable at THB1.12 (+1% YoY) due to the lack of cash reserve for debt repayment (vs THB681m in FY23E). We forecast FY23-34E DPU CAGR of 1%, supported by 2% EPU CAGR over the same period. Our DPU forecasts imply dividend yields of 10-11% in FY23-34E.

### Raise DCF-based target price to THB11.8

We raise our end-FY24E TP from THB11.0 to THB11.8 after trimming the WACC to 5.6% from 6.0%. The decrease in WACC stems from higher debt weight of 46% in the capital structure (vs estimated 36% previously). The loan-to-asset value of 46% already factors in equity issuance (THB10.5b) and debt (THB15.7b) for the lease extensions at Central Pinklao (expiring Dec 2024) and Central Rama 2 (expiring Aug 2025), which shareholders approved on 31 Jul 2023.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,502	4,864	5,848	5,690	7,032
Net property income	3,252	4,536	5,268	5,115	5,980
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ROAE (%)	2.8	6.3	9.2	5.2	0.1
ROAA (%)	0.5	1.7	2.4	1.9	3.0
Debt/Assets (x)	0.29	0.29	0.27	0.25	0.46
Consensus DPU	-	-	1.11	1.12	1.13
MIBG vs. Consensus (%)	-	-	0.0	0.0	0.4

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## BUY

Share Price	THB 10.80
12m Price Target	THB 11.80 (+19%)
Previous Price Target	THB 11.00

### Company Description

CPNREIT owns leasehold rights of shopping malls, office buildings and a hotel. CPNREIT's main sponsor is Central Pattana.

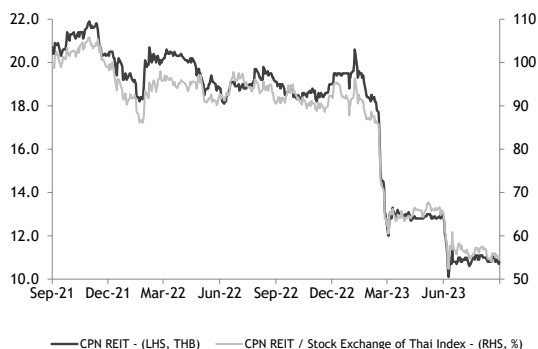
### Statistics

52w high/low (THB)	20.60/10.10
3m avg turnover (USDm)	1.0
Free float (%)	63.2
Issued shares (m)	2,568
Market capitalisation	THB27.7B
	USD778M

### Major shareholders:

Central Pattana and Central Pattana Deve	25.8%
Social Security Office	6.6%
TMB Eastspring Property and Infrastructu	4.5%

### Price Performance



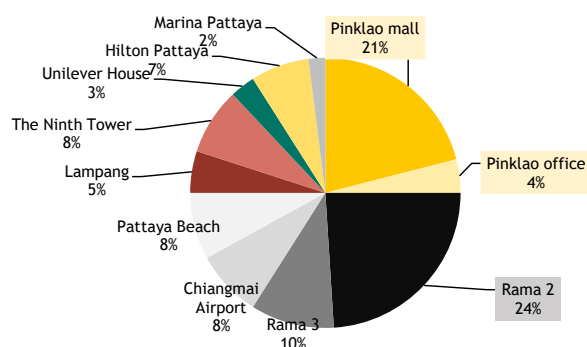
	-1M	-3M	-12M
Absolute (%)	(3)	(16)	(43)
Relative to index (%)	(3)	(16)	(39)

Source: FactSet

## Value Proposition

- CPNREIT owns leasehold rights of seven shopping malls, four office buildings and one hotel.
- Originally founded under a property fund structure, CPNRF converted to CPNREIT in Dec 2017 because the SEC no longer allows asset injection to property funds.
- All assets were injected to CPNREIT by Central Pattana (CPN TB), which is a major shareholder (30.3% stake) and a property manager of CPNREIT.
- Shopping malls contributed 78% of 1Q23 revenue; office buildings contributed 15% of the revenue, and the Hilton Pattaya hotel contributed 7% of the revenue.

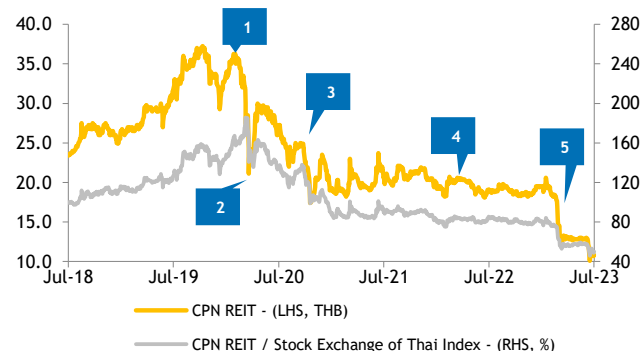
### CPNREIT's revenue breakdown in 1Q23



Source: Company

## Price Drivers

### Historical share price trend



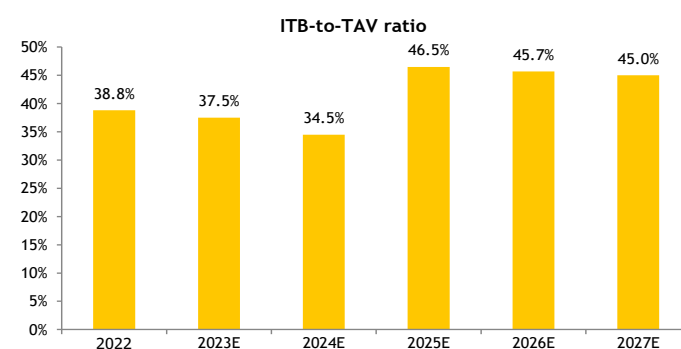
Source: Company, MST

- CPNREIT was trading at a rich valuation of >2.6x P/NAV ratio.
- Covid-19 outbreak hit the share price in March 2020.
- Waves of Covid-19 outbreak led to substantial rental discounts at shopping malls, leading to lower revenue and profit for CPNREIT.
- Share price was stabilising thanks to declining rental discount. Malls' rental discount was 17% in 1Q22, down from 27% in 4Q21 and 1Q21.
- Investors became worried about the lease extensions at Central Pinklao and Central Rama 2 and their implications for CPNREIT's DPU.

## Financial Metrics

- CPNREIT ended FY22 with THB4.5b net property income (+40% YoY). Key revenue drivers were i) average occupancy rates at remaining high (>90%) and ii) a sharp drop in malls' rental discount from 37% in FY21 to 14% in FY22.
- The post-Covid-19 recovery of domestic economy and international tourist arrivals lead use to forecast FY23E net investment income of THB2.2b (+59% YoY).
- We expect interest-bearing-debt-to-TAV ratio to rise from 39% in FY22 to 47% in FY25E, assuming that unitholders will approve the lease extensions at Pinklao (THB2.3b debt) and Rama 2 (THB13.4b debt). We then expect the gearing ratio to gradually drop from FY26E onwards.

### Interest-bearing-debt-to-TAV ratio



Note: TAV = total asset value  
Source: Company

## Swing Factors

### Upside

- Strong quarterly earnings performance.
- Unitholders' approval of the lease extensions at Central Pinklao and Central Rama 2.

### Downside

- Failure of lease extensions at Central Pinklao and Central Rama 2, resulting in lower DPU.
- Recession and its negative impact on occupancy rates and rental rates at shopping malls.
- Other external shocks (i.e. political instability, terrorist attacks and disease outbreaks) that may keep shoppers at home and result in weak consumer purchasing power.



Risk Rating & Score <sup>1</sup>	11.7
Score Momentum <sup>2</sup>	0.0
Last Updated	21 Mar 2022
Controversy Score <sup>3</sup>	N/A

## Business Model & Industry Issues

- In 2022, CPNREIT has been recognised as a member of S&P Global Sustainability Yearbook 2023 for the second year. CPNREIT also participated in the Global Real Estate Sustainability Benchmark (GRESB) assessment and rating for the second year in a row.
- CPNREIT's ESG disclosure is strong, signalling high degree of accountability. Also, the REIT has not been implicated in any ESG-related controversies. Nevertheless, the initiatives are not sufficient to manage all of its risks; for example, it does not have long-term carbon emission goal.

## Material E issues

- As Thailand's economic sectors began to reopen in 3Q21, CPNREIT has generated more wastes and utilised more natural resources in 2022.
- There were 7.5k tons of wastes in 2022 (+60% YoY). On a positive side, wastes diverted from disposal (reusing, recycling and offsite composting) rose 81% YoY to 710 tons.
- Scope 1 and 2 greenhouse gas emission was 40k ton CO<sub>2</sub>e in 2022, up from 32k ton CO<sub>2</sub>e in 2021 but still below 42k ton CO<sub>2</sub>e in 2019. Scope 1 and 2 GHG emission was 70 kg CO<sub>2</sub>e per sqm of floor area, up from 56 kg per CO<sub>2</sub>e per sqm but still much lower than 104 kg per CO<sub>2</sub>e in 2019.
- The GHG emission intensity in 2022 was below 2019 level due to cost savings initiatives related to utilities and higher electricity production from solar rooftops.
- Renewable energy as a percentage of total energy consumption rose from 0% in 2019 to 2% in 2022.

## Material S issues

- Forty four percent of CPNREIT's workforce was female in 2022, on par with 2021 level. The top five management staff were all men, and 13 out of 25 middle-management employees were female.
- Employees received 20 training hours on average in 2022, down from 25 in 2021 but up from 11 hours in 2020.
- In 2022, CPNREIT recruited 41 employees, 31 of which were female.
- Employee engagement score was 82 in 2022, up from 78 in 2021. CPNREIT has done zero layoff during 2019-22.
- Pay gap among middle and junior management staff was almost non-existent. The male:female remuneration ratio was 1.00:0.99.

## Key G metrics and issues

- In 2022, the board of directors comprised five people (1 male and four females). There were two independent directors while the remaining three directors were the management staff from Central Pattana (CPN TB) and its subsidiary, Siam Futures. CPN holds 30.3% stake in CPNREIT.
- The trust paid THB162m management fees to a REIT manager, CPN REIT Management Company, in FY22 (12% of FY22 net investment income). CPN REIT Management, a wholly-owned subsidiary of CPN's, will receive a monthly management fee from the Trust at the rate not exceeding 1% per annum of total assets value, but not less than THB15m each year. The fee increases by 3% pa.
- KPMG Phoomchai Audit Ltd was CPNREIT's auditor in 2022.
- The average board meeting attendance was 100% in 2022, up from 96% in 2021.
- The REIT has had no active litigations related to anti-competitive and anti-trust behaviours in 2019-22.

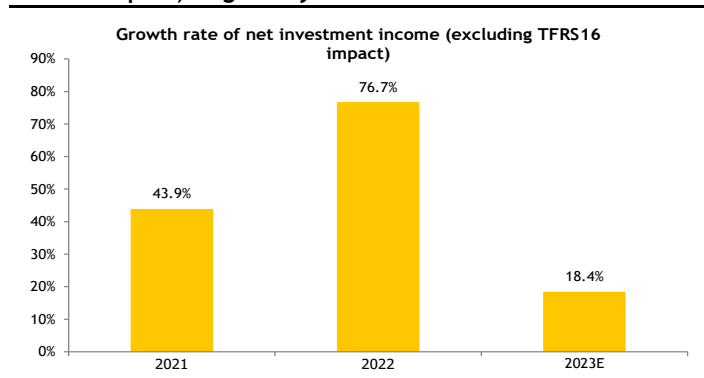
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**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. <sup>3</sup>**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).

# 1. Slight DPU decrease despite strong profit growth in FY23E

## 1.1 Reserving cash for debt repayment and renovation

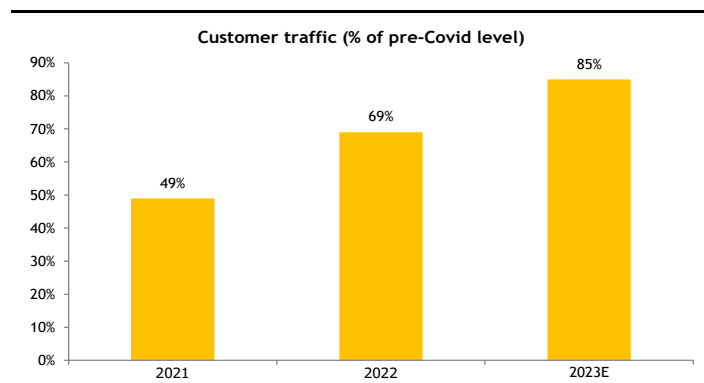
We forecast FY23E net investment income (excluding TFRS16 impact) to grow by 18% YoY due to post-Covid recovery in both mall traffic and rental income. Despite the strong profit growth, we forecast FY23E DPU to drop by 2% YoY due to THB681m debt repayment (THB552m in 2H23E) and THB480m reserve for Pinklao renovation. Our FY23E DPU of THB1.11 (10% yield) implies quarterly DPU of THB0.249 in 3-4Q23E, down from THB0.290 in 2Q23.

**Fig 13: We forecast FY23E net investment income (excluding TFRS16 impact) to grow by 18% YoY**



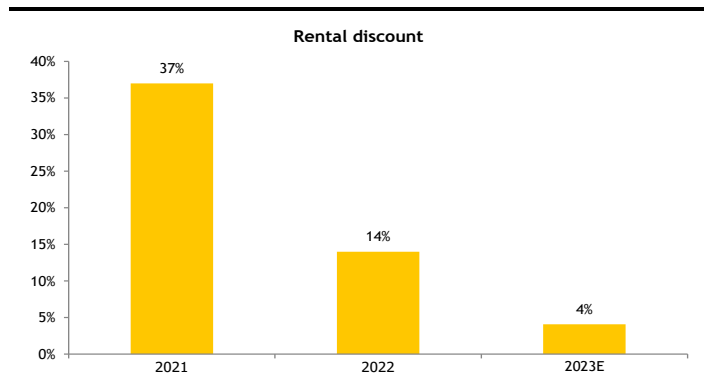
Source: Company, MST

**Fig 14: Shopping malls traffic**



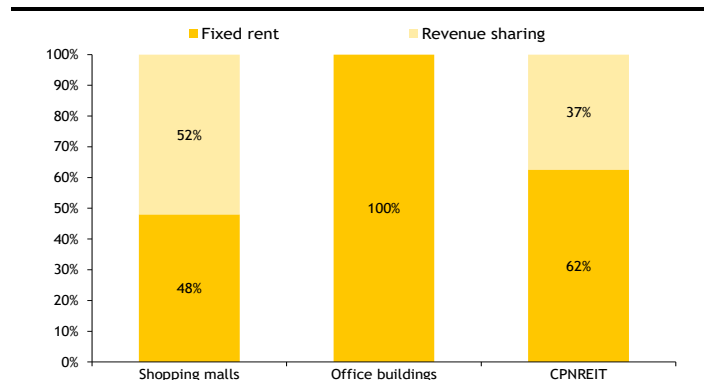
Source: Company, MST

**Fig 15: Rental discount**



Source: Company, MST

**Fig 16: Rental structure as of 2Q23**



Source: Company, MST

### THB1.1b capex for Pinklao renovation during FY24-25E

CPN, CPNREIT's property manager, has proposed the renovation of Central Pinklao, which will require THB1.1b outlay from CPNREIT. The renovation will be done in phases from early 2024 to mid-2025 while the mall will remain open. The mall renovation will be financed by CPNREIT's internal cashflows; we expect CPNREIT to reserve THB480m/THB620m cash for the Pinklao renovation in FY23/24E.

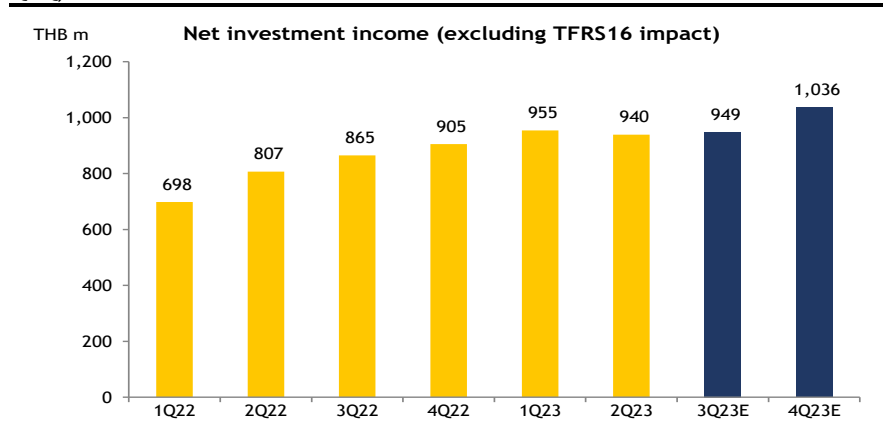


## 1.2 Strong 4Q23E profit outlook

CPNREIT reported 2Q23 net investment income (excluding TFRS16 impact) of THB940m (+16% YoY, -2% QoQ) on the back of THB1.2b revenue (+15% YoY, -1% QoQ). While the strong YoY revenue growth reflects lower rental discount and higher revenue sharing, the QoQ revenue decline stemmed from retrospective rental discount. 1H23 net investment income (+26% YoY) achieved 49% of our full-year forecast.

We expect 3Q23E net investment income to be stable QoQ. Then, we forecast 4Q23E net investment income at THB1.0b (+14% YoY, +9% QoQ) thanks to high season for public events, rising tourist arrivals and strong consumer confidence.

**Fig 17: We forecast 4Q23E net investment income at THB1.0b (+14% YoY, +9% QoQ)**



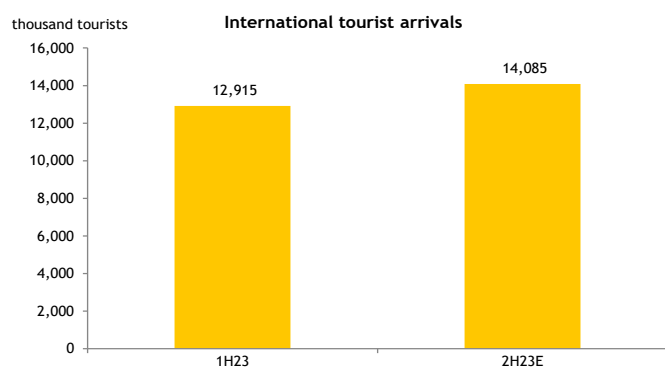
Source: Company, MST

## 1.3 Expected increases in tourist arrivals

We expect Thailand to end FY23E with 27m international tourist arrivals (+128% YoY). Tourist arrivals should be 14m in 2H23E, up from 13m in 1H23 thanks to the festive season in 4Q and rising Chinese arrivals.

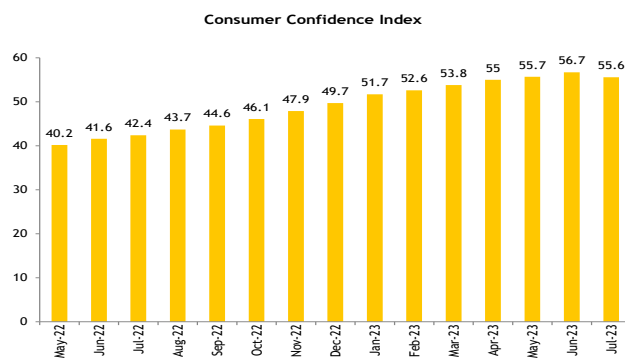
While arrivals from China were slower to return to Thailand in 1H23 compared with ASEAN peers, the expansion of flight capacity between China and Thailand in 3Q has already boosted China arrivals in Jul. China arrivals to Thailand rose by 32% MoM in Jul (the mainland's school holidays) to 42% of pre-pandemic levels. International flight capacity between China and Thailand is projected to rise by more than 30% by the end of 3Q from the 2Q level, according to Cirium. The outlook for Chinese visitors should brighten further if visa waivers; the new government plans to waive visa applications for Chinese and Kazakh tourists for five months, starting on 25 Sep.

Fig 18: Tourist arrivals to Thailand (1H23 vs 2H23E)



Source: Ministry of Tourism and Sports, MST

Fig 19: Consumer Confidence Index



Source: UTCC, MST

## 1.4 Strong consumer confidence in 4Q23E

Thailand's Consumer Confidence Index (CCI) fell MoM for the first time in 14 months in Jul amid a slow economic recovery and worries over political stability with parties still struggling to form a government after elections in May.

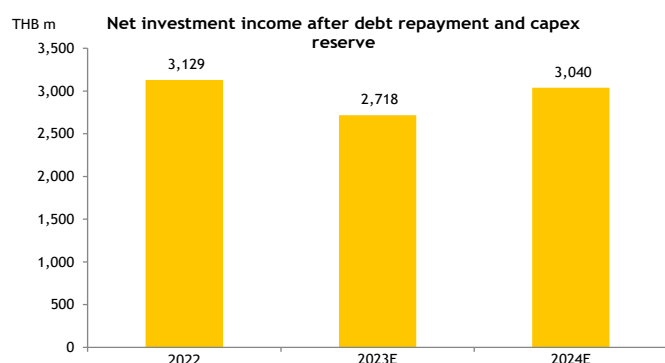
In Aug, Phue Thai Party's Srettha Thavasin became Thailand's new prime minister. Given the stabilised political landscape and upcoming government stimulus, we expect consumer confidence to trend higher for the remainder of FY23E following the dip in Jul.

## 2. 10-11% dividend yields over next 12 years

### 2.1 Stable DPU in FY24E due to the lack of debt repayment

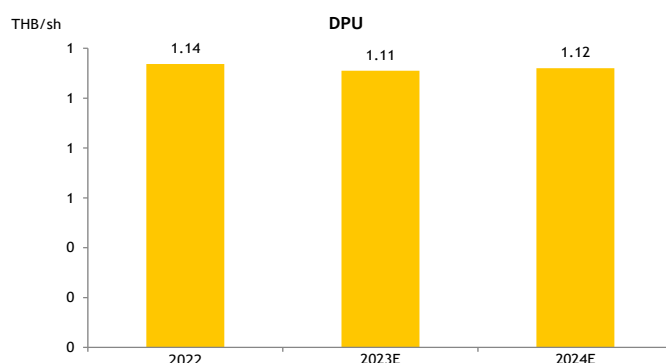
Although we expect FY24E net investment income to drop by 4% YoY (due to rental discount during the renovation of Central Pinklao), FY24E DPU should be stable at THB1.12 (+1% YoY) due to the lack of cash reserve for debt repayment (vs THB681m in FY23E).

Fig 20: Net investment income after debt repayment and capex reserve



Source: Company, MST

Fig 21: DPU

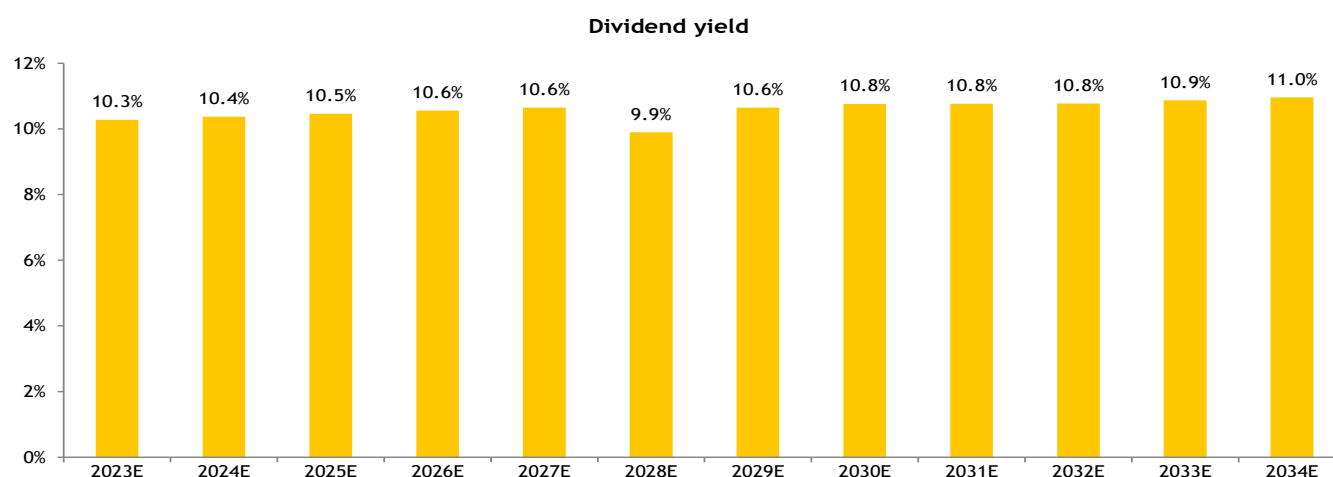


Source: Company, MST

### 2.2 Gradual increase in DPU in the long run

We forecast FY23-34E DPU CAGR of 1%, supported by 2% EPU CAGR over the same period. Our DPU forecasts imply dividend yields of 10-11% in FY23-34E.

Fig 22: 10-11% dividend yields over next 12 years



Source: Company, MST

### 2.3 Occupancy rates at office buildings to remain below pre-Covid level

CPNREIT owns leasehold rights to four office buildings. The occupancy rate of the office buildings was 90% in FY19. Due to the Covid-19 outbreak, the occupancy rate dropped to 89% in FY20 and 85-86% in FY21-2Q23. We forecast the occupancy rate to range from 84-85% in FY23-25E (vs CPNREIT's target of 90%) as working from home and hybrid work have become more common.

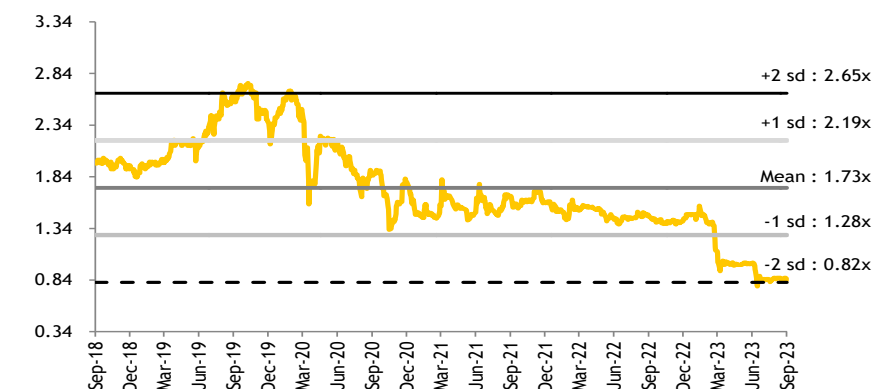
## 3. Valuation and recommendation

### 3.1 Reiterate BUY with a higher TP of THB11.8

We reiterate BUY on CPNREIT due to 10-11% dividend yields over the next 12 years (FY23-34E), IRR of 8.1%, and NLA-weighted average lease duration of 22 years (including the upcoming lease extensions).

We raise our DCF-based TP to THB11.8 from THB10.0 after trimming WACC to 5.6% from 6.0%. The decrease in WACC stems from higher debt weight of 46% in the capital structure (vs the previous debt weight of 36%). The loan to asset value of 46% already factors in the equity issuance (THB10.5b) and debt (THB15.7b) for the lease extensions at Central Pinklao and Central Rama 2.

**Fig 23: CPNREIT is trading at 0.84x P/NAV, which is approximately 2 s.d. below the 5-year mean of 1.73x**



Source: Bloomberg, MST

**Fig 24: DCF-based TP THB11.8 (5.6% WACC) based on cashflows from CPNREIT's assets until end-2095E (THB m, except per share value)**

DCF valuation (unit: THB m)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Cashflows from operation	4,263	5,662	5,887	5,924	6,189	6,418	6,680	6,954	7,237	7,532	7,802
Maintenance capex	- 542	- 637	- 213	- 221	- 230	- 238	- 246	- 255	- 264	- 273	- 281
Capex for lease extensions at Rama 2 and Pinklao	- 12,669	- 13,319									
FCFF	- 8,949	- 8,294	5,674	5,703	5,959	6,181	6,434	6,699	6,973	7,259	7,520
Discount period	0	1	2	3	4	5	6	7	8	9	10
Present value of FCFF	-	7,857	5,091	4,847	4,798	4,713	4,647	4,584	4,519	4,456	4,373
Sum of PV of FCFF		62,374									
Net debt at the end of FY24E	20,230										
Equity value	42,144										
Fully-diluted number of shares	3,568										
End-FY24E target price	11.80										
Upside/(downside) to the TP	9.3%										
Market price	10.80										
<b>WACC calculation</b>											
Cost of equity	7.7%										
Risk-free rate	3.0%										
Market return	10.4%										
Beta	0.64										
Cost of debt	3.0%										
Equity weight	54.0%										
Debt weight	46.0%										
WACC	5.6%										

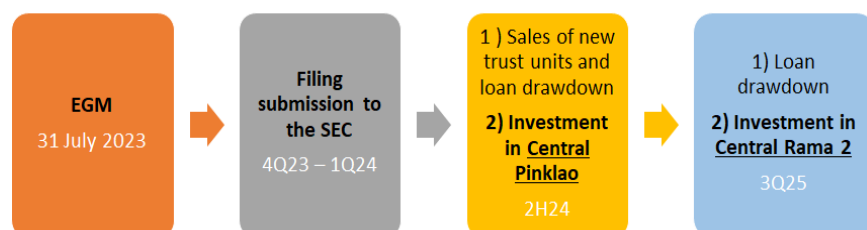
Source: Company, MST

### 3.2 Lease extensions at Central Pinklao and Central Rama 2

CPNREIT plans to renew its subleases with CPN at Central Pinklao (current lease to expire on 31 Dec 2024) and Central Rama 2 (current lease will expire in 15 Aug 2025) at a combined cost of THB25.0b (vs the appraised value of THB24.7b - THB25.3b by two independent appraisers). The overall cost for CPNREIT should be THB26.2b, including c.TH1b transaction costs (fees related to financial consultants, independent financial advisors, and fund raising).

The lease extensions, approved by unitholders at the EGM on 31 Jul, should help sustain the REIT's net property income and DPU over the next decade (FY23-34E CAGR of 1%) because the two locations combined have contributed c.50% of CPNREIT's revenue and EBITDA annually.

Fig 25: Timeline of lease extensions



Source: Company, MST

Fig 26: Summary of EGM agenda

Agenda		Remark
Agenda 1	a) additional investment and renovation at Central Pinklao b) change of lease conditions at Central Rama 2 c) entering into connected transactions	THB12.2b for lease extension and THB1.1b for renovation Change the extension from 30-year lease (THB25.4b) to 10-year lease (THB12.9b)
Agenda 2	a) cancellation of resolution of the EGM in Nov 2019 (Central Rama 2) b) capital increase for investments at Central Pinklao and Central Rama 2	Unitholders had previously approved the capital increase for lease renewal at Rama 2 Maximum of 1,100m units
Agenda 3	a) cancellation of resolution of EGM in Nov 2019 (Central Rama 2) b) allocation of new trust units -Preferential public offering -Private placement and/or public offering	Unitholders had approved the allocation of new trust units for lease renewal at Rama 2 Maximum of 1,100m units 50% or more 50% or less
Agenda 4	Amendment to the Trust Deed to be in line with the lease renewals	
Agenda 5	Amendment to the Trust Deed regarding unitholders' meetings	
Agenda 6	To consider other matters (if any)	

Source: Company, MST

Fig 27: 15-year lease extension at Central Pinklao

**Central Pinklao**

\*15-year lease extension, which lasts from 1 Jan 2025 to 31 Dec 2039

\*THB12.2b payment is due in Dec 2024 (THB12.7b, including transaction costs)

\*CPNREIT has the right to extend the lease for 7 years and 5 months

\*Source of fund = THB10.5b equity and THB2.3b debt

\*The equity portion (maximum of 1,100 new shares) will come from i) existing unitholders (50% or more), ii) private placement and/or public offering (50% or less)

Source: Company, MST

Fig 28: 10-year lease extension at Central Rama 2

**Central Rama 2**

\*10-year lease extension, which lasts from 16 Aug 2025 to 15 Aug 2035

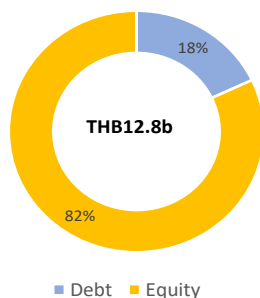
\*THB12.9b payment is due in Aug 2025 (THB13.3b, including transaction costs)

\*Source of fund = 100% debt

Source: Company, MST

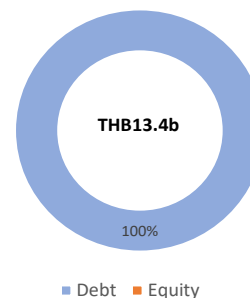
**Fig 29: The lease renewal at Central Pinklao will cost c.TH฿12.8b (equity:debt financing of 80:20)**

Central Pinklao (Dec 2024)



**Fig 30: The lease renewal at Central Rama 2 will cost c.TH฿12.9b (100% debt financing)**

Central Rama 2 (Aug 2025)



Source: Company, MST

Source: Company, MST

### 3.3 Minimal downside risk from minimum wage hike

The new coalition government is likely to lift the minimum wage in line with pre-election pledges. Minimum-wage workers (maids and security staff) cost CPNREIT c.TH฿33m in FY22. Based on this data, a 15% increase in the minimum wage implies 0.1% downside to FY24E net investment income, implying a non-material impact on overall earnings.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
Price/DPU(x)	33.5	17.2	9.7	9.6	9.6
P/BV (x)	1.5	1.5	0.8	0.9	1.0
P/NTA (x)	1.5	1.5	0.8	0.6	1.0
DPU yield (%)	3.0	5.8	10.3	10.4	10.5
FCF yield (%)	5.3	7.4	20.2	15.4	14.7
<b>INCOME STATEMENT (THB m)</b>					
Revenue	3,501.6	4,863.6	5,847.8	5,690.0	7,031.6
<b>Net property income</b>	<b>3,252.4</b>	<b>4,536.0</b>	<b>5,267.7</b>	<b>5,115.3</b>	<b>5,979.6</b>
Management and trustee fees	(624.4)	(690.6)	(644.9)	(641.6)	(809.3)
Net financing costs	(2,193.1)	(2,361.4)	(2,519.9)	(2,699.0)	(2,348.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	489.1	717.9	1,072.2	328.6	(2,659.2)
Other pretax income/expenses	25.6	23.1	0.0	22.5	23.0
<b>Pretax profit</b>	<b>865.9</b>	<b>2,111.2</b>	<b>3,057.3</b>	<b>2,003.7</b>	<b>59.5</b>
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Total return avail to unitholders</b>	<b>865.9</b>	<b>2,111.2</b>	<b>3,057.3</b>	<b>2,003.7</b>	<b>59.5</b>
Core net profit	376.8	1,393.3	1,985.1	1,675.2	2,718.8
Distributable inc to unitholders	577.8	3,023.7	2,718.0	3,039.7	3,718.3
<b>BALANCE SHEET (THB m)</b>					
Cash & Short Term Investments	1,159.2	2,041.8	3,399.5	3,518.5	3,562.8
Accounts receivable	1,260.6	927.7	1,059.7	1,041.1	1,225.6
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	75,370.7	76,303.5	77,567.0	91,107.3	76,001.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,181.0	1,043.8	1,084.7	1,080.3	1,134.1
<b>Total assets</b>	<b>78,971.5</b>	<b>80,316.8</b>	<b>83,110.9</b>	<b>96,747.2</b>	<b>81,923.6</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	187.9	227.0	258.6	257.8	369.9
LT interest bearing debt	22,561.5	23,001.4	22,411.4	24,622.6	38,006.8
Other liabilities	22,403.4	23,811.2	26,956.9	28,888.1	4,605.5
<b>Total Liabilities</b>	<b>45,152.7</b>	<b>47,039.6</b>	<b>49,626.9</b>	<b>53,768.4</b>	<b>42,982.2</b>
Shareholders Equity	33,818.8	33,277.2	33,484.0	42,978.7	38,941.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>33,818.8</b>	<b>33,277.2</b>	<b>33,484.0</b>	<b>42,978.7</b>	<b>38,941.4</b>
<b>Total liabilities and equity</b>	<b>78,971.5</b>	<b>80,316.8</b>	<b>83,110.9</b>	<b>96,747.1</b>	<b>81,923.6</b>
<b>CASH FLOW (THB m)</b>					
<b>Cash flow from operations</b>	<b>2,705.5</b>	<b>3,723.2</b>	<b>5,615.2</b>	<b>4,263.1</b>	<b>5,661.9</b>
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(6,527.7)	(217.5)	(191.3)	(13,211.8)	(13,956.1)
Disposal of FA & investments	1.8	0.7	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.1	201.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(6,523.7)</b>	<b>(15.8)</b>	<b>(191.3)</b>	<b>(13,211.8)</b>	<b>(13,956.1)</b>
Dividends paid	(1,572.0)	(2,652.8)	(2,850.5)	(2,876.2)	(4,031.9)
Interest expense	(593.9)	(581.3)	(625.8)	(634.5)	(948.8)
Change in debt	(493.5)	415.5	(590.0)	2,211.1	13,384.2
Equity raised / (purchased)	6,480.9	0.0	0.0	10,367.2	(65.0)
Other financial activities	(6.2)	(6.2)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>3,815.3</b>	<b>(2,824.8)</b>	<b>(4,066.3)</b>	<b>9,067.6</b>	<b>8,338.6</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>(2.9)</b>	<b>882.7</b>	<b>1,357.6</b>	<b>119.0</b>	<b>44.3</b>



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(13.4)	38.9	20.2	(2.7)	23.6
Net property income growth	(17.0)	39.5	16.1	(2.9)	16.9
Core net profit growth	(75.4)	269.7	42.5	(15.6)	62.3
Distributable income growth	(77.0)	423.3	(10.1)	11.8	22.3
<b>Profitability ratios (%)</b>					
Net property income margin	92.9	93.3	90.1	89.9	85.0
Core net profit margin	10.8	28.6	33.9	29.4	38.7
Payout ratio	175.2	138.3	93.2	143.5	nm
<b>DuPont analysis</b>					
Total return margin (%)	24.7	43.4	52.3	35.2	0.8
Gross revenue/Assets (x)	0.0	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.3	2.4	2.5	2.3	2.1
ROAE (%)	2.8	6.3	9.2	5.2	0.1
ROAA (%)	0.5	1.7	2.4	1.9	3.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.7	1.8	1.9
Net gearing (%) (excl. perps)	63.3	63.0	56.8	49.1	88.5
Net interest cover (x)	1.2	1.6	1.8	1.6	2.1
Debt/EBITDA (x)	8.9	6.2	5.0	5.7	7.5
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	21,402.3	20,959.6	19,012.0	21,104.1	34,444.0
Debt/Assets (x)	0.29	0.29	0.27	0.25	0.46

Source: Company; Maybank IBG Research

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