

CapitaLand Ascott Trust (CLAS SP)

Balancing growth and stability

BUY

Share Price SGD 0.95
 12m Price Target SGD 1.10 (+21%)
 Previous Price Target SGD 1.00

Improved operations; boost from one-off gains

CLAS reported 2H DPU of SGD3.8cts, +14% YoY. Full year DPU was 6.57cts, +16% YoY, 11%/14% ahead of our/cons est. Adj. for realized FX gains, 2H DPU of SGD3.0cts. was flat YoY while FY DPU was +14% YoY. Stronger operating performance of existing portfolio and contributions from acquisitions were mitigated by higher financing cost. Top-line growth was led by higher RevPAU. China and Vietnam improved sequentially. Factoring in recent acquisition, share placement and a lower discount rate, our estimates are relatively unchanged while our DDM-based TP goes up by 10% to SGD1.10. Maintain BUY.

Room rates support RevPAU growth

2H gross revenue and gross profit of SGD397.6m and SGD183.9m grew 12.4% and 11.7% YoY, respectively. FY revenue and NPI of SGD744.5m and SGD338.2m grew c.20% YoY. Growth was led by higher RevPAU. 2H RevPAU of SGD157 rose 10% YoY while full year RevPAU of SGD148 rose 23.3% YoY. Specifically, 4Q RevPAU of SGD161 rose 4% QoQ/YoY and is 3% above pre-pandemic level on a same-store basis. Growth in RevPAU was led by room rates while average occupancy was stable QoQ at 77% for 4Q and is 8% below pre-pandemic level. Barring China and Vietnam, key markets of Australia, Japan, Singapore, UK and the US continued to report RevPAU above pre-pandemic level notwithstanding some slowdown in Singapore and Australian market. While China and Vietnam grew QoQ, RevPAU remains c.12-14% below pre-pandemic levels.

Prudent capital management; focus on recycling

Gearing was 37.9% vs. 35.2% in 3Q after the acquisitions. Cost of debt rose c.70bps YoY, 10bps HoH to 2.4%. Management guided for “higher” debt cost for FY24 with 18% of debt due to mature this FY. Portfolio value rose 2% as stronger operating performance and outlook mitigated the impact of higher capitalization and discount rates. CLAS remains focussed on portfolio reconstitution. Last fiscal year, CLAS divested SGD260m at exit yield of 4.3% while acquired SGD531m of assets at 6.2% yield. Further, it has pipeline of 8 planned asset enhancements to uplift the portfolio.

Maintain BUY

We tweak our estimates factoring in recent acquisitions and placement. Combined with a lower discount rate, our TP rises 10% to SGD1.10. Notwithstanding potential support from one-off realized FX gains, the sequential RevPAU growth in 4Q is encouraging and perhaps, indicates the ongoing global travel recovery albeit at a slower pace. Maintain BUY.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	621	745	772	788	812
Net property income	283	338	351	366	378
Core net profit	120	164	200	207	216
Core EPU (cts)	3.5	4.4	5.3	5.4	5.6
Core EPU growth (%)	258.9	25.1	20.1	2.9	3.3
DPU (cts)	5.5	6.4	5.9	6.2	6.4
DPU growth (%)	27.6	14.8	(7.6)	5.0	3.7
P/NTA (x)	0.9	0.9	0.8	0.8	0.8
DPU yield (%)	5.3	6.4	6.2	6.5	6.7
ROAE (%)	6.3	5.5	3.9	4.0	4.2
ROAA (%)	1.5	2.0	2.3	2.4	2.4
Debt/Assets (x)	0.36	0.35	0.35	0.34	0.34
Consensus DPU	-	-	6.0	6.2	na
MIBG vs. Consensus (%)	-	-	(1.3)	(0.4)	na

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Company Description

Capitaland Ascott Residence Trust invests in income-producing hospitality properties and real-estate related assets.

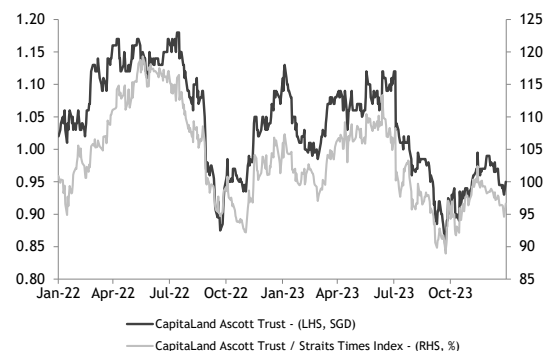
Statistics

52w high/low (SGD)	1.13/0.85
3m avg turnover (USDm)	5.1
Free float (%)	98.2
Issued shares (m)	3,759
Market capitalisation	SGD3.6B USD2.7B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	31.3%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	3	(11)
Relative to index (%)	(2)	(0)	(5)

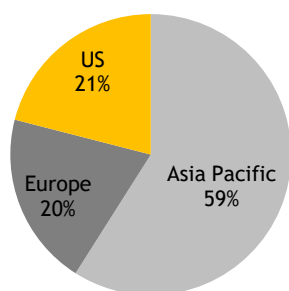
Source: FactSet

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 Tear Sheet Insert

Value Proposition

- Sponsor Ascott has a global footprint of about 160,000 units and is an eminent operator with focus on profitability.
- Portfolio has increased nine-fold since listing in Mar 2006 to 19,000 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.
- Balance of growth (global reopening, management contracts, sponsor/3rd party pipeline) and stability (master leases, diversified footprint, long-stay assets) with 30% and 40% of 1H23 revenue and gross profit respectively derived from master leases and MCMGI contracts.

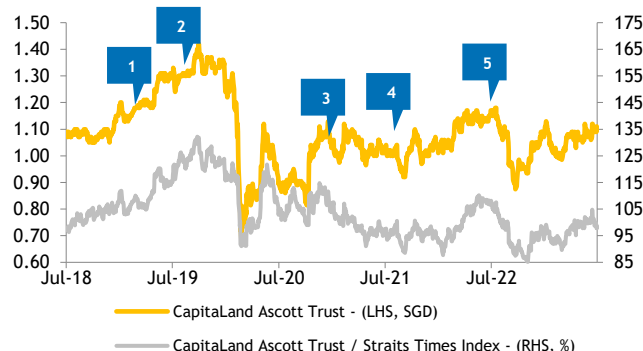
AUM profile (June 2023)



Source: Company

Price Drivers

Historical share price trend



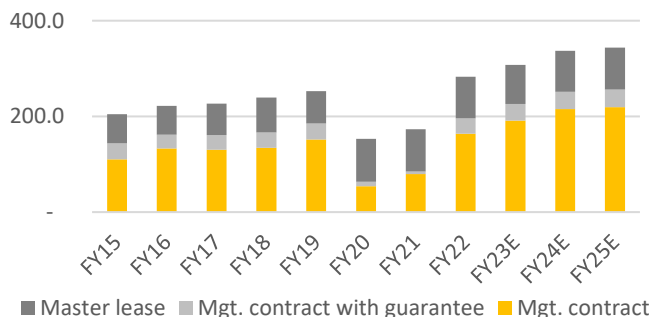
Source: Company, Maybank IBG Research

1. Jan-19: Divested Ascott Raffles Place for SGD353.3m, or 64.3% above its last valuation.
2. Jul-19: Announced merger with AHT to create Asia’s largest hospitality REIT with a SGD7.6b AUM.
3. Jan-21: Expanded investment mandate into student accommodation, together with maiden acquisition of 183 units in Atlanta, US, at 4.4% DPU accretion.
4. March-21: Sponsor proposes restructuring and demerger of investment management business of CLI.
5. Dec-21: CLAS doubles its student accommodation asset with US\$213m acquisition of four properties in US.

Financial Metrics

- DPU growth of 8.8%, 9.5% and 2.8% YoY projected for FY23, FY24 and FY25, respectively.
- DPU growth driven by increase in RevPAR. We forecast RevPAR growth of 20%, 7% and 4%, respectively, for FY23, FY24 and FY25. Gross margins are expected to be 44-46%.
- Top-line growth will be mitigated partially by rise in borrowing costs. We expect refinance rates to range between 2.5-3.5% vs. current portfolio interest cost of 2.3%.

Gross profit by income stream (SGDm)



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Pick-up in corporate and leisure demand leading to better than expected RevPAU.
- Operating leverage and efficiency gains achieved during lean pandemic period leading to higher margins.
- Accretive acquisitions from sponsor and third party.

Downside

- Deterioration in global economy, resulting in declines in RevPAU.
- Significant FX volatility and higher than expected borrowing costs could impede hedging and affect DPUs.
- Lower asset values leading to higher leverage.

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

1. Result summary

Fig 1: Results highlights

SGDm.	2H22	2H23	%YoY	FY22	FY23	%YoY
Revenue	353.8	397.6	12.4	621.2	744.5	19.8
Property expenses	-189.2	-213.7	13.0	-338.4	-406.3	20.1
Gross profit/NPI	164.6	183.9	11.7	282.8	338.2	19.6
Borrowing costs	-37.7	-45.1	19.7	-69.0	-86.8	25.8
Distributable income (to equity holders)	113.2	140.8	24.4	189.8	237.1	24.9
DPU (SGD cts)	3.33	3.80	14.1	5.66	6.58	16.3
Adj. DPU (SDG cts)	3.00	3.00	0.0	4.79	5.44	13.6
NAV per unit (SGD)	1.16	1.16	0.0	1.16	1.16	0.0
Aggregate leverage (%)	37.5	37.9	40.0	37.5	37.9	40.0
All-in financing cost (%)	1.7	2.4	70.0	1.7	2.4	70.0
Revenue - by business line	2H22	2H23	%YoY	FY22	FY23	%YoY
Master leases	38.8	47.2	21.6	78.7	91.0	15.6
MCMGI	54.2	66.3	22.3	93.1	123.2	32.3
Stable revenue	93.0	113.5	22.0	171.8	214.2	24.7
Management contracts/Growth revenue	260.8	284.1	8.9	449.4	530.3	18.0
Total revenue	353.8	397.6	12.4	621.2	744.5	19.8
Gross profit/NPI - by business line	2H22	2H23	%YoY	FY22	FY23	%YoY
Master leases	35.4	42.7	20.6	71.7	82.0	14.4
MCMGI	26.9	28.8	7.1	47.1	53.5	13.6
Gross profit (stable)	62.3	71.5	14.8	118.8	135.5	14.1
Gross profit (management contracts/growth)	102.3	112.4	9.9	164.0	202.7	23.6
Total gross profit/NPI	164.6	183.9	11.7	282.8	338.2	19.6
Gross profit margin (%)	2H22	2H23	%YoY	FY22	FY23	%YoY
Gross profit margin - Group	46.5	46.3	-27.1	45.5	45.4	-9.8
- Master leases	91.2	90.5	-77.1	91.1	90.1	-99.6
- MCMGI	49.6	43.4	-619.2	50.6	43.4	-716.5
- Management contracts	39.2	39.6	33.8	36.5	38.2	173.1
RevPAU (SGD)	2H22	2H23	%YoY	FY22	FY23	%YoY
Group	143.0	157.0	9.8	120.0	148.0	23.3

Source: Maybank IBG Research, Company Data

2. Estimate changes

Fig 2: Estimate changes

SGDm.	FY24E	FY25E	FY24E	FY25E	FY24	FY25
	New	New	Old	Old	% chng	% chng
Revenue	772.1	787.5	768.1	803.5	1%	-2%
NPI	351.3	366.2	345.7	362.6	2%	1%
Mgmt fees	(35.7)	(36.7)	(33.9)	(35.0)	5%	5%
Borrowing costs	(95.5)	(101.6)	(104.1)	(111.5)	-8%	-9%
Distrib. income	222.2	235.7	206.4	219.6	8%	7%
DPU, cents	5.88	6.17	5.91	6.22	0%	-1%

Source: Maybank IBG Research

3. Valuation

We value CLAS using a 2-stage DDM. We apply 7.4% as cost of equity vs. our earlier input of 7.7% due to a lower risk-free rate. We marginally lower our DPU assumptions by c. 1.0%. The 7-8% growth in distributable income is derived from higher top-line due to full year contribution from acquisitions, completion of AEIs (The Robertson House) and contribution from Standard at Columbia as well as better margin in FY25E and lower borrowing cost than our prior assumption. This is offset by a larger number of units. Including these changes, our TP rises by 10% to SGD 1.10, implying c. 21% total return at the current price. We maintain our BUY rating. Our estimates do not include any divestment gains or pay out of realized FX gains.

4. Risks

Slower recovery of Chinese tourist arrivals and flight capacity, conversion of master leases on fixed rents to variable rents, lower margins and higher interest rates

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	18.9	15.6	16.2	15.4	14.8
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/NTA (x)	0.9	0.9	0.8	0.8	0.8
DPU yield (%)	5.3	6.4	6.2	6.5	6.7
FCF yield (%)	7.2	3.8	8.0	8.2	8.4
INCOME STATEMENT (SGD m)					
Revenue	621.2	744.6	772.1	787.5	812.1
Net property income	282.8	338.2	351.3	366.2	377.6
Management and trustee fees	(31.3)	(35.1)	(35.7)	(36.7)	(36.9)
Net financing costs	(69.0)	(86.8)	(95.5)	(101.6)	(101.6)
Associates & JV	5.2	3.0	3.0	3.0	3.0
Exceptionals	128.4	68.2	0.0	0.0	0.0
Other pretax income/expenses	1.5	4.4	4.4	4.4	4.4
Pretax profit	280.3	302.4	215.6	224.4	235.6
Income tax	(33.6)	(72.4)	(43.1)	(44.9)	(47.1)
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	246.7	230.0	172.5	179.5	188.5
Core net profit	120.4	163.8	199.6	207.4	216.3
Distributable inc to unitholders	189.8	237.0	222.2	235.7	246.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	363.6	432.1	361.7	286.8	212.7
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	944.9	1,001.9	1,001.9	1,001.9	1,001.9
Investment properties	6,103.6	6,808.2	6,944.4	7,083.3	7,225.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	3.0	3.7	3.7	3.7	3.7
Other assets	608.5	484.8	466.8	467.8	468.8
Total assets	8,023.7	8,730.8	8,778.6	8,843.6	8,912.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	244.2	352.0	352.0	352.0	352.0
LT interest bearing debt	2,874.6	3,048.4	3,048.4	3,048.4	3,048.4
Other liabilities	460.1	500.1	500.1	500.1	500.1
Total Liabilities	3,578.9	3,900.5	3,900.5	3,900.5	3,900.5
Shareholders Equity	4,361.7	4,752.7	4,800.4	4,865.4	4,934.0
Minority Interest	83.1	77.6	77.6	77.6	77.6
Total shareholder equity	4,444.8	4,830.3	4,878.1	4,943.1	5,011.6
Total liabilities and equity	8,023.7	8,730.8	8,778.6	8,843.6	8,912.2
CASH FLOW (SGD m)					
Cash flow from operations	282.3	300.7	285.7	298.5	307.4
Capex	(23.3)	(162.1)	0.0	0.0	0.0
Acquisitions & investments	(271.5)	(238.1)	(60.0)	(60.0)	(60.0)
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	5.2	84.5	7.4	7.4	7.4
CF from investing activities	(289.7)	(315.7)	(52.6)	(52.6)	(52.6)
Dividends paid	(168.7)	(198.2)	(222.2)	(235.7)	(246.9)
Interest expense	(62.5)	(89.4)	(95.5)	(101.6)	(101.6)
Change in debt	147.6	77.4	0.0	0.0	0.0
Equity raised / (purchased)	170.0	298.6	0.0	0.0	1.0
Other financial activities	(13.3)	(20.6)	13.5	14.5	15.5
CF from financing activities	73.1	67.9	(304.2)	(322.8)	(332.0)
Effect of exchange rate changes	(24.7)	3.2	0.0	1.0	2.0
Net cash flow	41.1	56.0	(71.1)	(75.9)	(75.1)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	57.5	19.8	3.7	2.0	3.1
Net property income growth	63.2	19.6	3.9	4.2	3.1
Core net profit growth	288.8	36.1	21.9	3.9	4.3
Distributable income growth	38.2	24.9	(6.2)	6.1	4.7
Profitability ratios (%)					
Net property income margin	45.5	45.4	45.5	46.5	46.5
Core net profit margin	19.4	22.0	25.9	26.3	26.6
Payout ratio	157.7	144.7	111.3	113.7	114.2
DuPont analysis					
Total return margin (%)	39.7	30.9	22.3	22.8	23.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	6.3	5.5	3.9	4.0	4.2
ROAA (%)	1.5	2.0	2.3	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.3	2.3	2.3
Net gearing (%) (excl. perps)	56.5	54.2	55.1	55.9	56.6
Net interest cover (x)	3.1	3.6	3.2	3.1	3.2
Debt/EBITDA (x)	13.4	9.7	10.0	9.6	9.3
Capex/revenue (%)	3.8	21.8	0.0	0.0	0.0
Net debt/ (net cash)	2,511.0	2,616.3	2,686.7	2,761.5	2,835.7
Debt/Assets (x)	0.36	0.35	0.35	0.34	0.34

Source: Company; Maybank IBG Research

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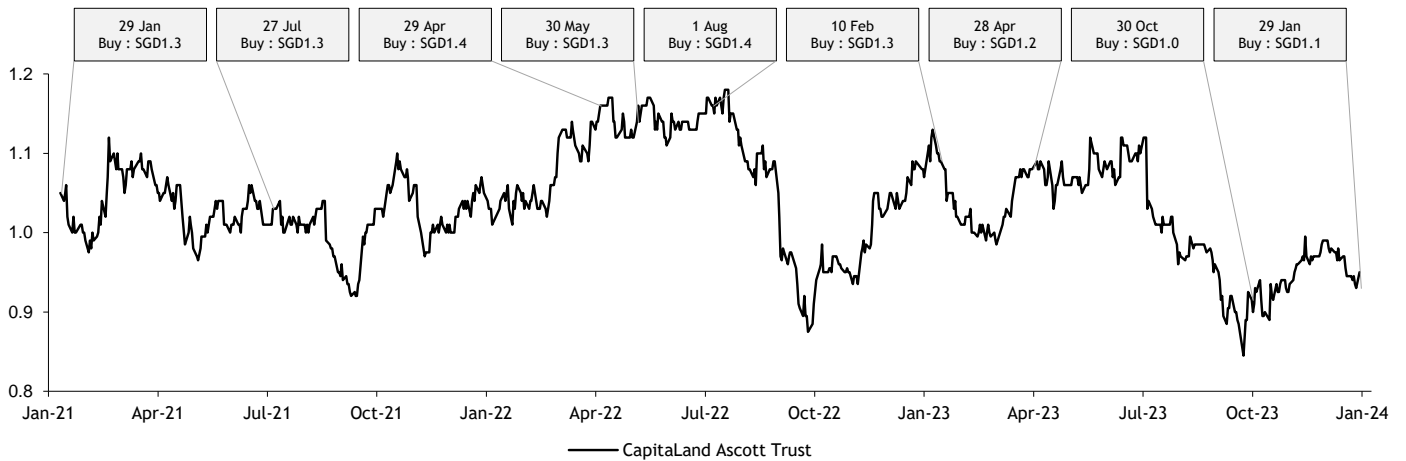
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