

CapitaLand Ascott Trust (CLAS SP)

Delivering resilience

Stability amid portfolio reconstitution

CLAS reported 1H24 DPU of SGD2.55cts, -33% HoH/-8% YoY. 1H24 revenue & NPI of SGD386.4m and SGD172.9m are +11.4% and +12% YoY, respectively. Stable revenue from master lease and MCMGI underpinned topline gains, while divestments chipped away at management contract growth. Forward-booking metrics suggest a brighter 3Q24. Main themes across key markets in 2H24 are: Olympics and other events, summer travel seasons, continued recovery in corporate bookings in select markets. Near-term incremental upside: assets coming out of AEl could potentially defy the headwinds from weaker market demand. We maintain our estimates, DDM-based TP and BUY rating.

Stable revenue underpinned topline

RevPAU of SGD145 in 1H24 is -8% HoH/+5% YoY. 2Q24 RevPAU is sequentially higher at SGD155 and 2% above pre-pandemic level on a same-store basis. Stable revenue from master lease and MCMGI rose c.32% HoH. From the master lease portfolio, all key markets posted higher rents in 1H24, with Japan portfolio receiving variable rents and contribution from acquisition. The stronger performance at MCMGI assets in UK and SG came from acquisition and renovation, respectively. Notably on same-store basis, UK saw a dip in MCMGI revenue led by ongoing AEI. Growth revenue from management contracts saw a dip of 16% HoH/4% YoY in 1H24, mainly on income loss from divestments. Japan and US led growth in management contract revenue, lifted by decent leisure travel demand, elevated occupancy at rental housing and a robust 1H24 event calendar. While SG and AU assets saw same-store revenue rise, this was offset by divestments.

Gearing, borrowing cost and replacing perps

Gearing dipped 50bps to 37.2%. Despite the leverage rules proposed by MAS, management is comfortable with gearing not exceeding 40%. Distribution came under stress from borrowing costs in 1H24 (+19% HoH). COD inched up to 3% (+60bps) and is expected to hold until end-FY24. While management has capacity to cushion higher interest expenses with divestment gains, CLAS prefers to deploy proceeds to grow sustainable returns. On Monday, CLAS said existing perps of SGD150m will be re-called and replaced with a new tranche of perps priced at an initial yield of 4.6%.

A brighter 3Q

Most of CLAS' key markets are expecting a stronger 3Q24. Serviced residences in France are set to benefit from Olympics in 3Q24, as media and corporate groups push occupancy above 80%. Against the backdrop of a strong summer travel season, SG and UK are expected to benefit from F1 and recovering corporate bookings, respectively. Sustained interest by leisure travelers and high average occupancy at long stay assets in Japan bode well for the management contracts segment. We also expect US management contract assets to benefit from good pre-leasing momentum and continued recovery in corporate bookings.

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	201	210	219
Core EPU (cts)	3.5	4.4	5.3	5.5	5.7
Core EPU growth (%)	258.9	25.1	20.9	3.6	3.3
DPU (cts)	5.5	6.4	5.9	6.3	6.5
DPU growth (%)	27.6	14.8	(6.8)	5.8	3.7
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	5.3	6.4	6.6	7.0	7.2
ROAE (%)	6.3	5.5	4.2	4.6	4.7
ROAA (%)	1.5	2.0	2.4	2.5	2.6
Debt/Assets (x)	0.36	0.35	0.35	0.35	0.35
Consensus DPU	-	-	5.9	6.1	6.4
MIBG vs. Consensus (%)	-	-	(0.0)	2.9	1.7

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BUY

Share Price SGD 0.90
12m Price Target SGD 1.10 (+28%)
Previous Price Target SGD 1.10

Company Description

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

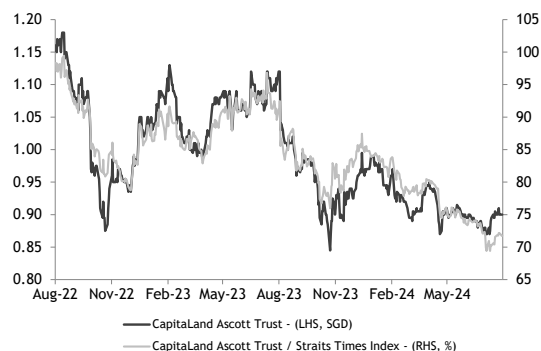
Statistics

52w high/low (SGD) 1.12/0.85
3m avg turnover (USDm) 3.6
Free float (%) 98.2
Issued shares (m) 3,759
Market capitalisation SGD3.4B
USD2.5B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma) 31.3%
The Vanguard Group, Inc. 2.2%
BlackRock Fund Advisors 1.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(1)	(18)
Relative to index (%)	(0)	(5)	(20)

Source: FactSet

Terms explained:

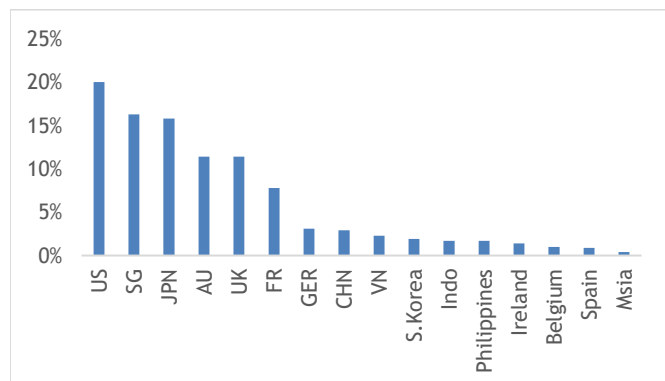
MCMGI: Management contracts with minimum guaranteed income
AEI: Asset enhancement initiative
RevPAU: Revenue per available unit
MAS: Monetary Authority of Singapore
COD: Cost of debt

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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 residences (SR), hotels, 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.

Contribution to AUM by markets

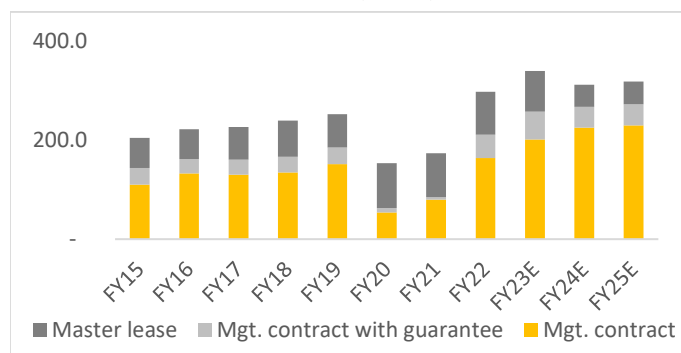


Source: Company

Financial Metrics

- DPU growth of 5.0% and 3.7% projected for FY25 and FY26, respectively. We project DPU decline in FY24 but this excludes any distribution of divestment/FX gains.
- DPU growth driven by increase in RevPAR. We forecast RevPAR growth of 4% and 3%, respectively, for 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 3.0-3.5% vs. current portfolio interest cost of 2.7%.

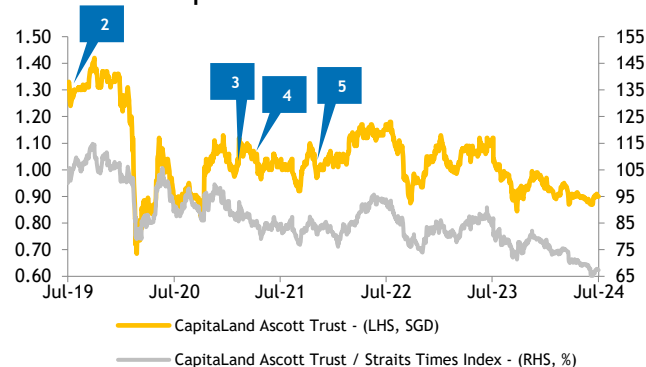
Gross profit by income stream (SGDm)



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.

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 CapitalLand 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 CapitalLand, 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. Financial highlights

Fig 1: Higher RevPAU (SGD11.8m) and contribution from acquisitions (SGD38.2) was partially offset by recent divestments (SGD10.5m).

(SGD m)	2H22	1H23	2H23	1H24	HoH, %	YoY, %
Revenue	353.8	346.9	397.6	386.4	(2.8)	11.4
Property expenses	(189.2)	(192.6)	(213.7)	(213.5)	(0.1)	10.9
Gross profit/ NPI	164.6	154.4	183.9	172.9	(6.0)	12.0
Borrowing costs	(37.7)	(41.7)	(45.1)	(53.6)	18.8	28.5
Distributable income (to equityholders)	113.2	96.3	140.8	96.5	(31.5)	0.2
DPU (SGD cts)	3.33	2.78	3.80	2.55	(32.9)	(8.3)
Adjusted DPU (SGD cts)	3.00	2.44	3.00	2.41	(19.7)	(1.2)
NAV per unit (SGD)	1.16	1.15	1.16	1.15	(0.9)	0.0
Aggregate leverage (%)	38.00	38.6	37.9	37.2	(0.7)	(1.4)
All-in financing cost (%)	1.80	2.3	2.4	3.0	0.6	0.7
Revenue - by business line						
Master leases	38.8	43.6	47.2	48.5	2.8	11.2
MCMGI	54.2	56.9	66.3	101.7	53.4	78.7
Stable revenue	93.0	100.5	113.5	150.2	32.3	49.5
Management contracts/Growth revenue	260.8	246.4	284.1	236.2	(16.9)	(4.1)
Total revenue	353.8	346.9	397.6	386.4	(2.8)	11.4
Gross profit/NPI - by business line						
Master leases	35.4	39.5	42.7	45	5.4	13.9
MCMGI	26.9	24.8	28.8	38.3	33.0	54.4
Gross profit (stable)	62.3	64.3	71.5	83.3	16.5	29.5
Gross profit (management contracts/growth)	102.3	90.1	112.4	89.6	(20.3)	(0.6)
Total gross profit/NPI	164.6	154.4	183.9	172.9	(6.0)	12.0
Gross profit margin (%)						
Gross profit margin - Group	46.5	44.5	46.3	44.7	(1.5)	0.2
- Master leases	91.2	90.6	90.5	92.8	2.3	2.2
- MCMGI	49.6	43.6	43.4	37.7	(5.8)	(5.9)
- Management contracts	39.2	64.0	39.6	37.9	(1.6)	(26.1)
RevPAU (SGD)						
Portfolio	143.0	138.0	157.0	145.0	(7.6)	5.1

Source: Company, Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	18.9	15.6	15.2	14.3	13.8
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	5.3	6.4	6.6	7.0	7.2
FCF yield (%)	7.2	3.8	6.6	8.7	8.9
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)	(34.3)	(35.3)	(35.6)
Net financing costs	(69.0)	(86.8)	(93.9)	(98.2)	(98.2)
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	218.5	229.1	240.3
Income tax	(33.6)	(72.4)	(43.7)	(45.8)	(48.1)
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	174.8	183.3	192.2
Core net profit	120.4	163.8	201.0	210.2	219.1
Distributable inc to unitholders	189.8	237.0	224.2	239.5	250.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	363.6	432.1	187.2	112.9	38.8
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	944.9	1,001.9	1,015.0	1,015.0	1,015.0
Investment properties	6,103.6	6,808.2	6,516.6	6,646.9	6,779.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	3.0	3.7	3.0	3.0	3.0
Other assets	608.5	484.8	581.2	561.8	562.8
Total assets	8,023.7	8,730.8	8,302.9	8,339.6	8,399.4
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	2,946.9	2,946.9	2,946.9
Other liabilities	460.1	500.1	545.1	545.1	545.1
Total Liabilities	3,578.9	3,900.5	3,844.1	3,844.1	3,844.1
Shareholders Equity	4,361.7	4,752.6	4,391.7	4,428.3	4,488.1
Minority Interest	83.1	77.6	67.2	67.2	67.2
Total shareholder equity	4,444.8	4,830.3	4,458.8	4,495.5	4,555.3
Total liabilities and equity	8,023.7	8,730.8	8,302.9	8,339.6	8,399.4
CASH FLOW (SGD m)					
Cash flow from operations	282.3	300.7	236.5	299.5	307.9
Capex	(23.3)	(162.1)	(13.0)	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)	(65.6)	(52.6)	(52.6)
Dividends paid	(168.7)	(198.2)	(224.2)	(239.5)	(250.7)
Interest expense	(62.5)	(89.4)	(93.9)	(98.2)	(98.2)
Change in debt	147.6	77.4	(101.4)	0.0	0.0
Equity raised / (purchased)	170.0	298.6	0.0	0.0	1.0
Other financial activities	(13.3)	(20.6)	3.0	14.5	15.5
CF from financing activities	73.1	67.9	(416.5)	(323.2)	(332.4)
Effect of exchange rate changes	(24.7)	3.2	0.0	1.0	2.0
Net cash flow	41.1	56.0	(245.6)	(75.3)	(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	22.7	4.6	4.3
Distributable income growth	38.2	24.9	(5.4)	6.8	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	26.0	26.7	27.0
Payout ratio	157.7	144.7	111.5	113.9	114.4
DuPont analysis					
Total return margin (%)	39.7	30.9	22.6	23.3	23.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.9	1.9	1.9
ROAE (%)	6.3	5.5	4.2	4.6	4.7
ROAA (%)	1.5	2.0	2.4	2.5	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.2	2.2	2.2
Net gearing (%) (excl. perps)	56.5	54.2	61.9	63.0	63.8
Net interest cover (x)	3.1	3.6	3.2	3.3	3.4
Debt/EBITDA (x)	13.4	9.7	9.7	9.2	8.9
Capex/revenue (%)	3.8	21.8	1.7	0.0	0.0
Net debt/ (net cash)	2,511.0	2,616.3	2,759.7	2,834.1	2,908.2
Debt/Assets (x)	0.36	0.35	0.35	0.35	0.35

Source: Company; Maybank IBG Research

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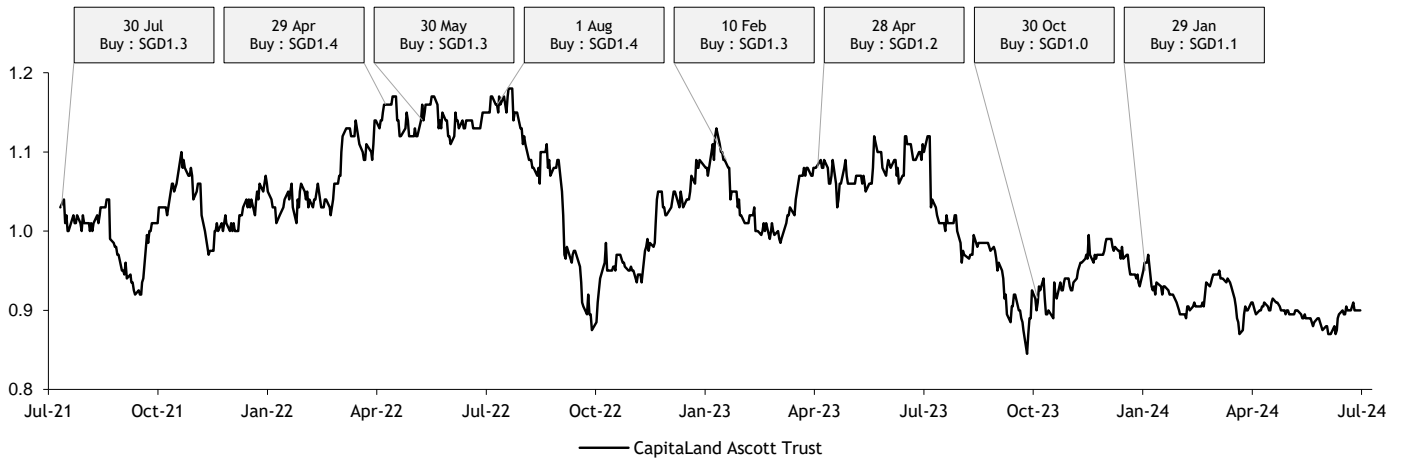
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