

CapitaLand Ascendas REIT (CLAR SP)

Stable performance

BUY

Share Price	SGD 2.72
12m Price Target	SGD 2.90 (+12%)
Previous Price Target	SGD 2.90

Healthy reversions offset by higher financing cost

CLAR reported 1H DPU of SGD7.52c, +1.1% HoH/-2.5% YoY. Higher interest expense and an enlarged number of units offset top-line growth. Portfolio occupancy was stable though US business parks saw lower occupancy. Rent reversion was mid-teen positive for 1H and, consequently, rent reversion guidance has been raised to high single-digit from mid-single digit for the FY. Borrowing cost crept up by 20bps HoH. All in, a steady report card. We maintain our forecasts, BUY rating and TP of SGD2.90.

Accelerating reversions

1H revenue and NPI grew 7.2% and 3.9% YoY, respectively. Acquisitions and contributions from newly completed properties led the growth. Coupled with higher finance expense and an enlarged number of units (private placement in May 2023), DPU fell 2.5%. On a HoH basis, revenue and NPI grew 1.1% and 2.7%, respectively led by similar factors. DPU grew 1.1% HoH as higher financing expense partially eroded NPI growth. Portfolio occupancy was 93.1% (93.3% in 1Q, 94.4% a year ago). Occupancy was stable across geographies except the US where it fell a couple of %pts due to expiries in single tenanted business parks. Rent reversion was +13.4% for 1H, +11.7% for 2Q, led by logistics. That said, mgmt. noted that industrial and data centres (DC) in its portfolio are new growth centres while logistics is entering a high but mature growth phase. Mgmt. raised rent reversion guidance for the full year to high single-digit.

Financial metrics stable

Gearing was stable at 37.8%. Borrowing cost at 3.7% was 20bps higher HoH but stable QoQ. Coverage ratio inched down to 3.5x (3.6x in 1Q). Natural hedge ratio is maintained at 76%. CLAR continues to enjoy an A3 credit rating by Moody's. In the quarter, CLAR announced new asset enhancement plans for Aperia. No capex plans for UK DC have been announced as CLAR is securing power for the facility. On vacant US business parks, mgmt. didn't guide for any repositioning plans as yet.

Maintain BUY

Following our recent [upgrade](#), we maintain our estimates, rating and TP. While we expect frictional occupancies in the US and SG business parks, diversified revenue profile and strong credit should stabilize bottom line.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,353	1,480	1,486	1,545	1,592
Net property income	969	1,023	1,043	1,085	1,118
Core net profit	484	506	637	674	711
Core EPU (cts)	18.1	4.1	14.2	14.9	15.7
Core EPU growth (%)	(20.8)	(77.2)	242.3	5.6	5.1
DPU (cts)	15.8	15.2	14.5	15.3	16.1
DPU growth (%)	3.6	(4.1)	(4.4)	5.6	5.2
P/NTA (x)	1.2	1.3	1.2	1.2	1.2
DPU yield (%)	5.8	5.0	5.3	5.6	5.9
ROAE (%)	7.6	1.8	6.2	6.5	6.8
ROAA (%)	2.7	2.8	3.4	3.6	3.7
Debt/Assets (x)	0.34	0.36	0.37	0.37	0.38
Consensus DPU	-	-	15.0	15.8	16.0
MIBG vs. Consensus (%)	-	-	(3.4)	(3.2)	0.6

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Company Description

CapitaLand Ascendas Real Estate Investment Trust invests in industrial properties around the world.

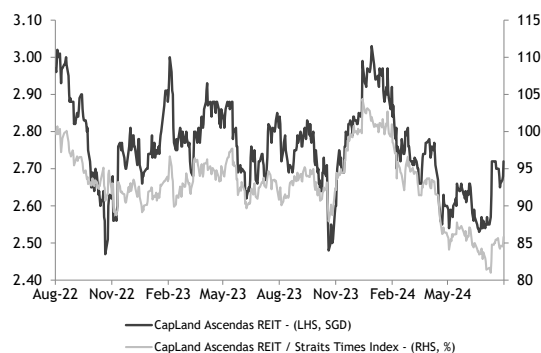
Statistics

52w high/low (SGD)	3.03/2.48
3m avg turnover (USDm)	22.0
Free float (%)	82.0
Issued shares (m)	4,391
Market capitalisation	SGD11.9B USD8.9B

Major shareholders:

Temasek	17.4%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	6	5	(3)
Relative to index (%)	3	0	(5)

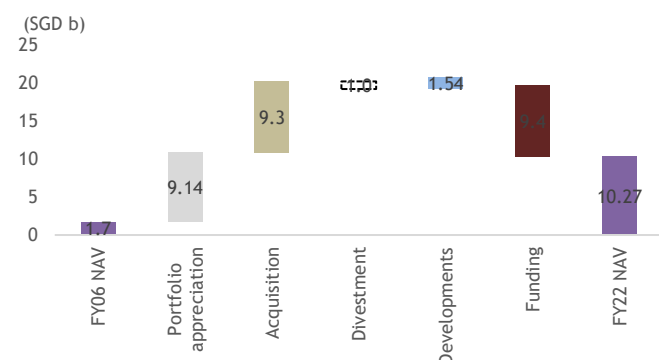
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Second largest listed S-REIT, and first and largest listed within the industrial sub-sector; backed by sponsor Ascendas-Singbridge, acquired by CapitalLand Investment in Jul 2019, and now boasts SGD124b in AUM.
- Owns the largest new economy AUM among peers - business space & life sciences, logistics and data centres - together represent 81% of its SGD16.4b portfolio.
- Greater clarity on acquisition growth trajectory, with Australian, UK and US assets driving earnings visibility and Singapore properties entrenching business space footprint.
- Proactive portfolio reconstitution has strengthened its balance sheet. We expect management will endeavour to recycle capital into higher-yielding and newer assets.

NAV growth (FY06-21)

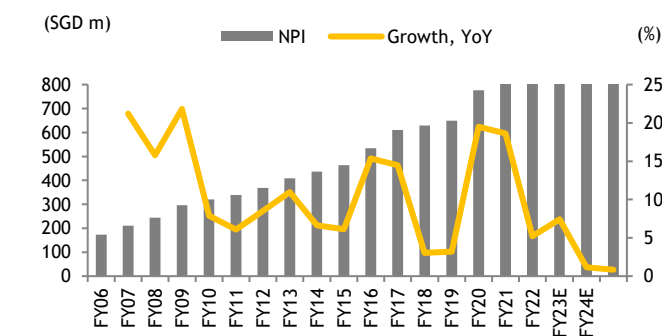


Source: Company

Financial Metrics

- DPUs for FY22-25E to be resilient given favourable logistics, business parks and hi-specs industrial exposure, and rising contribution from recent overseas acquisitions.
- Downside may come from rapid overseas expansion, especially in US business park and Europe DCs. Older Singapore business parks may need capex and face transitory downtime.
- Headwinds from higher funding and operating costs.

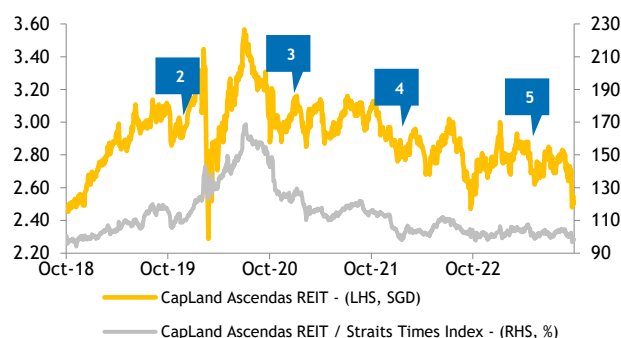
NPI growth profile



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Jan-19: CapitalLand announced acquisition of its sponsor for SGD11b, to result in a combined SGD116b AUM.
2. Nov-19: Announced acquisition of 28 US and 2 SG business park properties for SGD1.7b from sponsor at 6.5% NPI yield, partly funded by a SGD1.3b rights issue.
3. Nov 20: Raised SGD1.2b in new equity, a third to fund the acquisitions of two freehold Class A office properties in San Francisco at +2-3% pa rental escalations.
4. Nov-21: Announced plan to redevelop 1 Science Park Drive with CapitalLand Development into new innovation campus to projected 6.3% NPI yield
5. May, June-23: Announced acquisition of Seagate's R&D facility, CAPL unveils SGD1.4b life sciences cluster

Swing Factors

Upside

- Earlier-than-expected pick up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions

Downside

- Prolonged slowdown in economic activity could reduce demand for industrial space, resulting in lower occupancy and rental rates.
- Termination of long-term leases causing weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score ¹	11.8 (Low)
Score Momentum ²	-2.6
Last Updated	04 Oct 2022
Controversy Score ³	0 - No Reported Incident

Business Model & Industry Issues

- CLAR draws on its available pool of funds to invest in industrial real estate, carry out asset enhancements, and redevelop 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 closely 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 strong representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- It has adopted the CapitaLand group’s 2030 Sustainability Master Plan, which was unveiled in 2020. It is intended that the SMP will be a dynamic blueprint, with its outlined goals, focus areas and targets that will be reviewed every two years.

Material E issues

- 94 of its 220 properties (43% by GFA) are under operational control so covered as part of its sustainability reporting; 40 are BCA Green Mark certified, and it targets for all buildings to achieve a minimum green rating by 2030.
- Installed 36 additional EV charging points in Singapore, to a total of 76 across 16 properties, and owns 227 EV charging points globally in FY21 (from 138 in FY20).
- Increased solar panel installation footprint by 2% YoY to 11.4 GWh in FY21, and expected to commence its second phase of works in FY22.
- Starting to implement green leases for its Singapore assets.
- Has raised SGD1.5b in green financing to date, accounting for c.23% of total borrowings (from c.7% in FY20)

Material S issues

- Has grown its community-focused capacities with the expansion of its flexible workspace, while AEIs have added collaborative spaces, gyms and end-of-trip facilities.
- CapitaLand provides each employee three days of volunteer service leave to encourage community service contribution; 82% volunteered in FY21 with over 480 hours dedicated (vs 269 hours in FY20).
- CapitaLand has implemented its building capabilities framework to upskill employees, which was rolled out globally in FY20. The average training hours rose to 22 in FY21 (from 17 in FY20).
- Gender diversity improved in FY21 among all 45 employees, with female representation at 60% (from 44% in FY20) but it declined at the management level to 40% (from 60%)

Key G metrics and issues

- Externally managed by subsidiaries of sponsor CapitaLand Investment, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high; it comprises eight members, five of whom including the Chairman are independent, with non-finance/ real estate backgrounds. The CEO is the only executive and non-independent board member.
- Revised computation of management fees (in FY15) in favour of unitholders, with base fee set at 0.5% of adjusted deposited property, and performance fee at 0.1% of adjusted deposited property if DPU growth >2.5% YoY and 0.2% if >5.0% YoY.
- The cumulative remuneration of its key management, including the CEO, has represented <0.9% of the REIT’s distributable income since it was first reported in FY17.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency.
- Has grown new economy assets to 81% of AUM as at end-2021 (from 68% at end-2016), helped by a record SGD2.1b of acquisitions completed in FY21.
- Has maintained a sound balance sheet with leverage <38% historically. Its AUM rose c.70% between from 2018-21 due to acquisitions, while leverage stayed low at 35.9% (as of end-Dec 2021) and below the 50% regulatory limit. Scored ‘A’ for public disclosure in the GRESB survey, and was ranked 3rd amongst 45 REITs and business trusts, on the Singapore Governance and Transparency Index 2021.

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 highlights

Fig 1: 1HFY24 result details

	1H23	2H23	1H24	%HoH	% YoY
Business space & Life sciences	312	323	327		
Industrial & Data Centres	233	260	263		
Logistics	174	179	180		
Revenue	718	762	770		
Singapore	485	498	500		
Australia	72	73	73		
UK & Europe	65	92	94		
US	97	98	102		
Revenue	718	762	770		
Gross revenue	718	762	770	1.1	7.2
Property expenses	(209)	(247)	(242)	(2.3)	15.5
Net property income	509	514	528	2.7	3.9
Borrowing costs	(120)	(136)	(138)	0.9	14.6
Mgmt fees & Trust expenses	(52)	(51)	(51)		
Operating income	337	327	340		
Total distributable income	327	327	331	1.2	1.0
DPU (SGD cts)	7.72	7.44	7.52	1.1	(2.5)
NAV per unit (SGD)	2.32	2.26	2.27	0.4	(2.2)
Aggregate leverage (%)	36.7	37.9	37.8	(10)	110
All-in financing cost (%)	3.3	3.5	3.7	20	40
Occupancy (%)	94.4	94.2	93.1	(110)	(130)
Rental reversion (% YoY)	14.2	12.7	13.4	70	(80)
NPI margin (%)	70.9	67.5	68.6	110	(223)

Source: Maybank IBG Research, Company Data

2. Valuation

We value CLAR using a 3-stage dividend discount model by applying a cost of equity of 7.2%. 1HFY24 DPU is tracking at 51% of full year estimate. The main reason for the higher annualised run-rate is lower finance expense. However, we keep our estimates unchanged as CLAR has 7% of debt due to refinance in 2H, which is likely to lead to higher finance expense in line with our full-year estimate. We leave our BUY rating and TP of SGD2.9 unchanged.

3. Risks

Non-renewal of leases in the US and the UK, higher interest rates, lower valuation of overseas properties, structural vacancy in business parks and higher capex for older data centres

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	17.3	20.0	18.8	17.8	16.9
P/BV (x)	1.1	1.3	1.2	1.1	1.1
P/NTA (x)	1.2	1.3	1.2	1.2	1.2
DPU yield (%)	5.8	5.0	5.3	5.6	5.9
FCF yield (%)	8.8	6.1	8.1	8.4	8.6
INCOME STATEMENT (SGD m)					
Revenue	1,352.7	1,479.8	1,485.8	1,545.3	1,591.6
Net property income	968.8	1,023.2	1,043.4	1,085.1	1,117.6
Management and trustee fees	(100.8)	(102.8)	(105.9)	(109.3)	(110.8)
Net financing costs	(187.8)	(256.7)	(289.6)	(290.3)	(284.8)
Associates & JV	0.3	0.5	0.5	0.5	0.5
Exceptionals	164.2	(492.0)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	844.8	172.2	648.2	686.0	722.6
Income tax	(84.4)	6.3	(25.9)	(27.4)	(28.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	760.4	178.5	622.3	658.5	693.7
Core net profit	483.6	505.6	637.2	674.2	710.7
Distributable inc to unitholders	663.9	654.4	637.2	674.2	710.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	217.0	221.6	251.6	281.6	310.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	17,224.9	17,595.4	18,123.3	18,304.5	18,487.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	70.8	111.4	111.4	111.4	111.4
Other assets	363.2	341.4	341.4	341.4	341.4
Total assets	17,876.0	18,269.8	18,827.6	19,038.9	19,250.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	344.5	423.5	423.5	423.5	423.5
LT interest bearing debt	6,142.0	6,520.9	6,920.9	7,070.9	7,220.9
Other liabilities	1,122.9	1,105.1	1,105.1	1,105.1	1,105.1
Total Liabilities	7,609.4	8,049.5	8,449.5	8,599.5	8,749.5
Shareholders Equity	10,266.6	10,220.3	10,378.1	10,439.4	10,501.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	10,266.6	10,220.3	10,378.1	10,439.4	10,501.4
Total liabilities and equity	17,876.0	18,269.8	18,827.6	19,038.9	19,250.9
CASH FLOW (SGD m)					
Cash flow from operations	1,017.9	968.8	965.4	1,003.0	1,033.0
Capex	(0.0)	(171.2)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(376.8)	(757.8)	(400.0)	(150.0)	(150.0)
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	2.6	3.3	0.5	0.5	0.5
CF from investing activities	(374.3)	(925.7)	(399.5)	(149.5)	(149.5)
Dividends paid	(649.7)	(660.6)	(637.2)	(674.2)	(710.7)
Interest expense	(192.7)	(253.6)	(289.6)	(290.3)	(284.8)
Change in debt	69.1	400.4	400.0	150.0	150.0
Equity raised / (purchased)	(9.0)	485.6	(9.0)	(9.0)	(9.0)
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(782.3)	(28.2)	(535.8)	(823.5)	(854.5)
Effect of exchange rate changes	(12.8)	2.2	0.0	0.0	0.0
Net cash flow	(151.5)	17.0	30.0	30.0	29.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.3	9.4	0.4	4.0	3.0
Net property income growth	5.2	5.6	2.0	4.0	3.0
Core net profit growth	6.2	4.5	26.0	5.8	5.4
Distributable income growth	5.4	(1.4)	(2.6)	5.8	5.4
Profitability ratios (%)					
Net property income margin	71.6	69.1	70.2	70.2	70.2
Core net profit margin	35.8	34.2	42.9	43.6	44.7
Payout ratio	87.3	nm	102.4	102.4	102.5
DuPont analysis					
Total return margin (%)	56.2	12.1	41.9	42.6	43.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.8	1.8	1.8	1.8
ROAE (%)	7.6	1.8	6.2	6.5	6.8
ROAA (%)	2.7	2.8	3.4	3.6	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.2	2.2	2.2
Net gearing (%) (excl. perps)	57.7	61.6	64.3	65.0	65.8
Net interest cover (x)	4.6	3.6	3.2	3.4	3.5
Debt/EBITDA (x)	7.1	7.1	7.4	7.2	7.2
Capex/revenue (%)	0.0	11.6	0.0	0.0	0.0
Net debt/ (net cash)	5,925.0	6,299.3	6,669.3	6,789.3	6,910.3
Debt/Assets (x)	0.34	0.36	0.37	0.37	0.38

Source: Company; Maybank IBG Research

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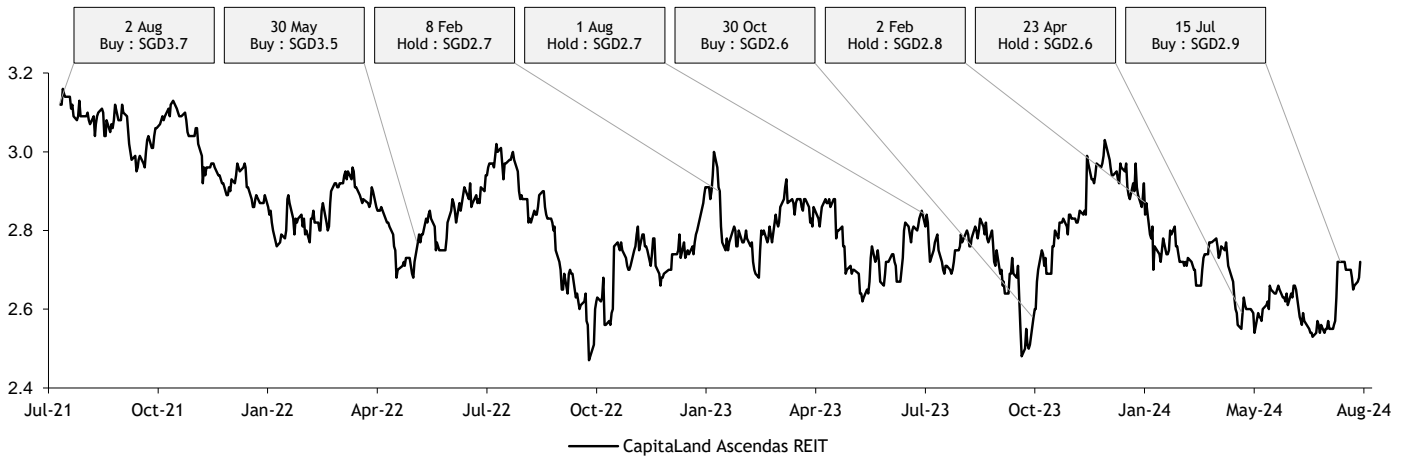
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