

CapitaLand Ascott Trust (CLAS SP)

Growing core distribution

BUY

Share Price SGD 0.90
 12m Price Target SGD 1.10 (+28%)
 Previous Price Target SGD 1.15

Acquisitions and operation drive gross profit growth

CLAS reported 2H DPU of SGD3.55c, -6.6% YoY. Core DPU (ex. FX gains) grew 2.7% YoY. FY24 DPU SGD6.1c, -7.3% YoY. Top-line growth was offset by higher borrowing costs and smaller FX gains. Mid-single digit RevPAR growth enabled similar growth in revenue and gross profit on same-store basis. Financial metrics are stable. We factor in mgmt. guidance, tweak down estimates and trim our DDM-based TP to SGD1.10 from SGD1.15. Maintain BUY on back of stable core dividend, diversified portfolio and attractive valuation (6.8% yield, 0.7PB).

Resilient performance

2H revenue and gross profit of SGD423.2m and SGD198m grew 6% and 8% YoY, respectively. Stronger operating performance, acquisitions and completed asset enhancements were the drivers. Revenue and gross profit grew 4% YoY on a same-store basis. On a full-year basis, revenue and gross profit grew 8.7% and 9.7%, respectively. Higher borrowing cost and fall in distribution of non-periodic gains lowered distributable income/DPU for 2H and FY. Portfolio RevPAU for 2H grew 6% to SGD167 (4Q 176, +9% YoY). RevPAU growth was a result of an increase in average daily rates and a higher average occupancy rate at 81%, compared to 77% in 4Q23. Among 6 key markets, Japan led RevPAU growth with a 37% increase while AU, SG and UK registered double-digit growth.

Continued portfolio reconstitution

Portfolio value rose 1%, led by stronger operations and completed asset enhancements. Barring the US, cap rates were stable. Gearing was stable at 38.3% (1H 37.2%) while deb cost was unchanged at 3%. Mgmt. reaffirmed ongoing capital recycling initiative. Temporary fluctuations in operational income will be smoothed out using prior divestment gains to achieve stable distribution profile.

Maintain BUY

We lower our FY25/26 estimates by c.4.5%, factoring in ongoing asset recycling and core DPU guidance. This results in a lower TP of SGD1.10. Reiterate our BUY rating on the back of CLAS' stable distribution profile, diversified portfolio and attractive valuation (FY24 6.8% yield, 0.7x PB).

Company Description

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

Statistics

52w high/low (SGD)	0.98/0.86
3m avg turnover (USDm)	5.5
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



— CapitaLand Ascott Trust - (LHS, SGD)
 — CapitaLand Ascott Trust / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	2	(2)	(6)
Relative to index (%)	1	(7)	(22)

Source: FactSet

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	745	810	807	827	860
Net property income	338	371	375	385	400
Core net profit	162	160	197	206	209
Core EPU (cts)	4.5	4.2	5.1	5.3	5.3
Core EPU growth (%)	31.2	(7.0)	22.0	3.7	(0.0)
DPU (cts)	6.6	6.1	6.1	6.4	6.4
DPU growth (%)	19.9	(8.0)	(0.1)	4.0	0.7
P/NTA (x)	0.9	0.8	0.8	0.8	0.8
DPU yield (%)	6.7	7.0	6.8	7.1	7.1
ROAE (%)	5.5	5.6	3.9	4.0	4.0
ROAA (%)	1.9	1.8	2.2	2.3	2.3
Debt/Assets (x)	0.35	0.36	0.36	0.35	0.35
Consensus DPU	-	-	6.1	6.6	na
MIBG vs. Consensus (%)	-	-	0.1	(4.2)	na

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Tear Sheet Insert

1. Investment thesis

Fig 1: Result details (SGD m)

	2H23	2H24	%YoY	FY23	FY24	%YoY
Revenue	397.6	423.2	6.4	744.5	809.6	8.7
Property expenses	-213.7	-225.2	5.4	-406.3	-438.7	8.0
Gross profit/NPI	183.9	198.0	7.7	338.2	370.9	9.7
Borrowing costs	-45.1	-51.7	14.7	-86.8	-105.3	21.3
Distributable income (to equityholders)	140.8	134.8	-4.3	237.1	231.3	-2.4
DPU (SGDcts)	3.80	3.55	-6.6	6.58	6.1	-7.3
Core DPU (SDGcts) (ex non-periodic FX gains)	3.00	3.08	2.7	5.44	5.49	0.9
NAV per unit (SGD)	1.16	1.15	-0.9	1.16	1.15	-0.9
Aggregate leverage (%)	37.9	38.3	40.0	37.9	38.3	40.0
All-in financing cost (%)	2.4	3.0	60.0	2.4	3.0	60.0
Revenue - by business line	2H23	2H24	%YoY	FY23	FY24	%YoY
Master leases	47.2	49.4	4.7	91.0	97.9	7.6
MCMGI	85.7	116.7	36.2	123.2	218.4	77.3
Stable revenue	132.9	166.1	25.0	214.2	316.3	47.7
Management contracts/Growth revenue	264.7	257.1	-2.9	530.3	493.3	-7.0
Total revenue	397.6	423.2	6.4	744.5	809.6	8.7
Gross profit/NPI - by business line	2H23	2H24	%YoY	FY23	FY24	%YoY
Master leases	42.7	45.1	5.6	82.0	90.1	9.9
MCMGI	34.1	47.8	40.2	53.5	86.1	60.9
Gross profit (stable)	76.8	92.9	21.0	135.5	176.2	30.0
Gross profit (management contracts/growth)	107.1	105.1	-1.9	202.7	194.7	-3.9
Total gross profit/NPI	183.9	198.0	7.7	338.2	370.9	9.7
Gross profit margin (%)	2H23	2H24	%YoY	FY23	FY24	%YoY
Gross profit margin - Group	46.3	46.8	53.4	45.4	45.8	38.6
- Master leases	90.5	91.3	-77.1	90.1	92.0	192.3
- MCMGI	39.8	41.0	-984.1	43.4	39.4	-400.2
- Management contracts	40.5	40.9	123.5	38.2	39.5	124.5
RevPAU (SGD)	2H23	2H24	%YoY	FY23	FY24	%YoY
Group	157.0	167.0	6.4	148.0	156.0	5.4

Source: Maybank IBG Research

2. Estimate changes

Fig 2: Estimate changes

	FY25E	FY26E	FY25E	FY26E	FY25	FY26
SGDm.	New	New	Old	Old	% chng	% chng
Revenue	806.8	827.3	799.1	823.7	1.0%	0.4%
NPI	375.1	384.7	371.6	383.0	1.0%	0.4%
Mgmt fees	(37.8)	(38.6)	(36.3)	(36.5)	4.2%	5.7%
Borrowing costs	(107.7)	(104.5)	(104.1)	(101.1)	3.5%	3.3%
Distrib. income	233.3	245.7	243.2	257.2	-4.1%	-4.5%
DPU, cents	6.11	6.35	6.37	6.68	-4.1%	-4.9%

Source: Maybank IBG Research

3. Valuation

We value CLAS using a 2-stage DDM using cost of equity of 7.0%. Through 2024, CLAS has divested c.SGD500m of assets and redeployed capital of c.SGD350m. According to management, CLAS has c.SGD300m of divestment gains including realized FX gains. The divestment gains will be used to repay loans/stabilize distribution and acquire assets. Guidance is to maintain DPU of c.SGD6.1c using a mix of operational and top-up levers. We factor in proposed China divestment and acquisition of lyf, Singapore as well as DPU guidance in our estimates. This leads to a c. 4.5% decline in our FY25 DPU estimates and results in a small cut in our TP to SGD1.10 from SGD1.15. We maintain a BUY rating.

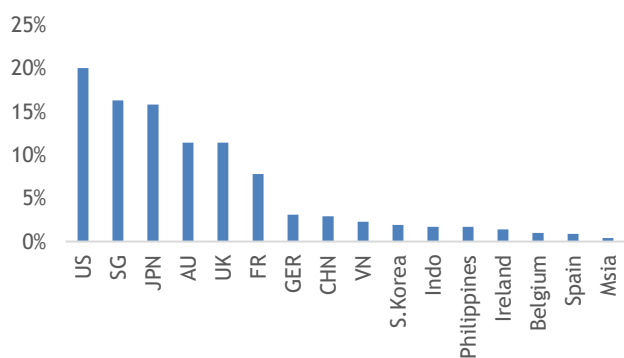
4. Risks

Slower recovery of travel in developed markets and fall in demand for student accommodation, higher interest rates and FX volatility, slower pace of recycling/absence of top ups.

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

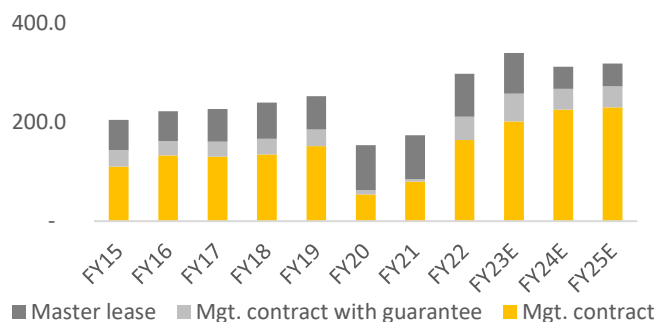


Source: Company

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%.

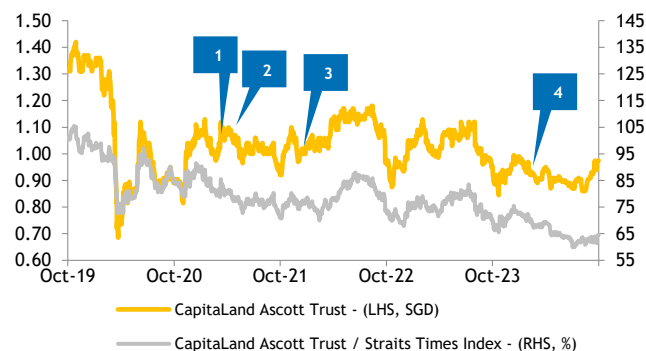
Gross profit by income stream (SGDm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Jan-21: Expanded investment mandate into student accommodation, together with maiden acquisition of 183 units in Atlanta, US, at 4.4% DPU accretion.
2. March-21: Sponsor proposes restructuring and demerger of investment management business of CLI.
3. Dec-21: CLAS doubles its student accommodation asset with USD213m acquisition of four properties in US.
4. Feb-24: CLAS divested Citadines Mount Sophia Singapore, for SGD148.0m, close to SGD1.0 million a key, and 19% above the property's book value.

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).

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Price/DPU(x)	14.9	14.2	14.7	14.1	14.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
P/NTA (x)	0.9	0.8	0.8	0.8	0.8
DPU yield (%)	6.7	7.0	6.8	7.1	7.1
FCF yield (%)	3.9	7.2	9.5	8.5	8.5
INCOME STATEMENT (SGD m)					
Revenue	744.6	809.5	806.8	827.3	859.5
Net property income	338.2	370.9	375.1	384.7	399.7
Management and trustee fees	(35.1)	(36.8)	(37.8)	(38.6)	(39.3)
Net financing costs	(86.8)	(105.4)	(107.7)	(104.5)	(104.5)
Associates & JV	3.0	8.8	8.8	8.8	0.0
Exceptionals	68.2	84.7	0.0	0.0	0.0
Other pretax income/expenses	4.4	6.2	6.2	6.2	6.2
Pretax profit	302.4	289.2	219.6	231.6	237.1
Income tax	(72.4)	(44.9)	(46.1)	(48.6)	(50.0)
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	230.0	244.3	173.5	182.9	187.1
Core net profit	161.8	159.6	196.6	206.5	209.0
Distributable inc to unitholders	237.0	231.2	233.3	245.7	250.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	432.1	644.1	630.0	576.5	526.4
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,001.9	1,007.2	1,027.3	1,047.9	1,068.8
Investment properties	6,808.2	6,628.9	6,761.5	6,896.7	7,034.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	3.7	3.0	3.0	3.0	3.0
Other assets	484.8	537.0	509.0	510.0	511.0
Total assets	8,730.8	8,820.1	8,930.7	9,034.1	9,143.8
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	352.0	232.6	232.6	232.6	232.6
LT interest bearing debt	3,048.4	3,187.5	3,187.5	3,187.5	3,187.5
Other liabilities	500.1	558.7	558.7	558.7	558.7
Total Liabilities	3,900.5	3,978.8	3,978.8	3,978.8	3,978.8
Shareholders Equity	4,752.6	4,773.2	4,887.7	4,990.8	5,100.3
Minority Interest	77.6	68.2	68.2	68.2	68.2
Total shareholder equity	4,830.3	4,841.3	4,955.8	5,059.0	5,168.5
Total liabilities and equity	8,730.8	8,820.1	8,934.6	9,037.8	9,147.3
CASH FLOW (SGD m)					
Cash flow from operations	300.7	317.2	345.5	313.8	318.3
Capex	(162.1)	(79.0)	(20.1)	(20.5)	(20.0)
Acquisitions & investments	(238.1)	222.0	0.0	0.0	0.0
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	84.5	39.5	15.0	15.0	15.0
CF from investing activities	(315.7)	182.5	(5.2)	(5.6)	(5.0)
Dividends paid	(198.2)	(212.9)	(233.3)	(245.7)	(250.6)
Interest expense	(89.4)	(111.3)	(107.7)	(104.5)	(104.5)
Change in debt	77.4	85.5	0.0	0.0	0.0
Equity raised / (purchased)	298.6	0.0	0.0	0.0	0.0
Other financial activities	(20.6)	(25.5)	(14.4)	(14.4)	(14.4)
CF from financing activities	67.9	(264.3)	(355.4)	(364.6)	(369.5)
Effect of exchange rate changes	3.2	(18.1)	1.0	2.0	3.0
Net cash flow	56.0	217.3	(14.1)	(54.4)	(53.2)

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	19.8	8.7	(0.3)	2.5	3.9
Net property income growth	19.6	9.7	1.1	2.5	3.9
Core net profit growth	36.7	(1.4)	23.1	5.0	1.2
Distributable income growth	24.9	(2.4)	0.9	5.3	2.0
Profitability ratios (%)					
Net property income margin	45.4	45.8	46.5	46.5	46.5
Core net profit margin	21.7	19.7	24.4	25.0	24.3
Payout ratio	146.5	144.9	118.7	119.0	119.9
DuPont analysis					
Total return margin (%)	30.9	30.2	21.5	22.1	21.8
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 (%)	5.5	5.6	3.9	4.0	4.0
ROAA (%)	1.9	1.8	2.2	2.3	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.2	2.3	2.3
Net gearing (%) (excl. perps)	54.2	52.5	51.6	51.6	51.5
Net interest cover (x)	3.6	2.8	2.9	3.1	3.2
Debt/EBITDA (x)	9.7	10.8	10.2	9.9	9.5
Capex/revenue (%)	21.8	9.8	2.5	2.5	2.3
Net debt/ (net cash)	2,616.3	2,543.4	2,557.5	2,610.9	2,661.1
Debt/Assets (x)	0.35	0.36	0.36	0.35	0.35

Source: Company; Maybank IBG Research

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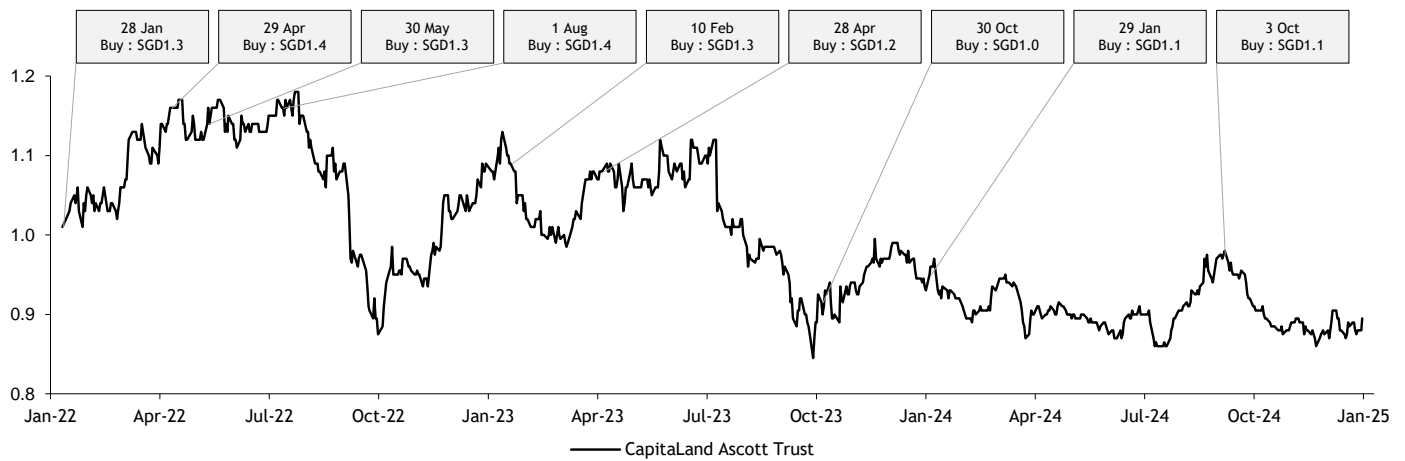
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