CapitaLand Ascendas REIT (CLAR SP) Acquisitions deepen footprint

Accretive purchase of Singapore assets in tech sector

CLAR announced it will acquire a data centre (DC) and business park for SGD724.6m. The modern assets in a good location with tech tenants will deepen CLAR's presence in Singapore's strategic sectors. The deal will be financed with SGD500m of equity raised and SGD275m of debt. Pro-forma dividend and NAV accretion is 1.36% and 3.5%, respectively, with gearing relatively unchanged. Maintain BUY due to CLAR's diversified portfolio, exposure to value-added manufacturing/R&D and strong credit.

Details of the acquisitions

CLAR will acquire a tier-III co-location DC on 9 Tai Seng Drive, and a premium business park on 5 Science Park Drive, which serves as ecommerce player Shopee's regional HQ. Both assets were completed on 2019, have 100% occupancy, and weighted average lease expiry (WALE) of 4.4 years (DC) and 1.5 years (business park). The DC and business park have about 30 years and 56 years of land tenure remaining. The property values are SGD455.2m for the DC, and SGD245m for the business park. The price for the business park includes SGD30m of deferred consideration.

Strategic and financial merits

The purchases increase CLAR's presence in Singapore by 6.6% to 67% of AUM. It increases its exposure to tech tenants such as social media, ecommerce and FIs. The first year NPI yields are attractive at 7.2% for the DC (7.1% post-transaction costs) and 6.1% for the business park excluding the deferred payment (est. 5% including deferred payment and transaction costs). Pro-forma DPU accretion is 1.36%, based on 3% cost of new debt and excluding the deferred consideration. Including the deferred payment and taking into account c.SGD50m of excess equity raised, we estimate accretion is 1%. While WALEs are relatively short, growth potential exists from the under-rented assets (30% for the DC, 15% for the business park), potential for additional power capacity and lease step-ups. Pro-forma gearing will be 38.4% (vs. 38.9% at end-1Q25).

Maintain BUY

Our forecasts are unchanged pending completion of the deals. While accretion is limited for the business park and WALEs are short, the assets in a future-proof sector enhances portfolio and growth potential.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,480	1,523	1,505	1,527	1,593
Net property income	1,023	1,050	1,054	1,069	1,115
Core net profit	506	547	662	679	717
Core EPU (cts)	4.1	17.4	14.7	15.1	15.9
Core EPU growth (%)	(77.2)	320.5	(15.2)	2.5	5.4
DPU (cts)	15.2	15.2	15.0	15.4	16.2
DPU growth (%)	(4.1)	0.4	(1.2)	2.4	5.3
P/NTA (x)	1.3	1.1	1.1	1.1	1.1
DPU yield (%)	5.0	5.9	5.8	5.9	6.2
ROAE (%)	1.8	7.7	6.5	6.6	6.9
ROAA (%)	2.8	3.0	3.6	3.7	3.8
Debt/Assets (x)	0.36	0.36	0.36	0.37	0.37
Consensus DPU	-	-	15.2	15.9	16.2
MIBG vs. Consensus (%)	-	-	(1.4)	(3.2)	0.3

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BUY

Share Price	SGD 2.61
12m Price Target	SGD 2.95 (+19%)
Previous Price Target	SGD 2.95

Company Description

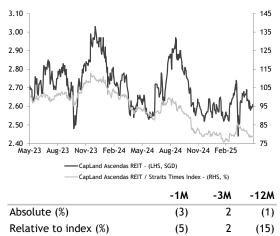
CapitaLand Ascendas Real Estate Investment Trust invests in industrial properties around the world.

Statistics

52w high/low (SGD)	2.97/2.44
3m avg turnover (USDm)	26.2
Free float (%)	82.0
Issued shares (m)	4,391
Market capitalisation	SGD11.5B
	USD8.9B
Major shareholders:	

Temasek 17.4%

Price Performance



Source: FactSet

Stock mentioned: Shopee - SE US, Buy, CP: USD165.24, TP: USD174

Abbreviations mentioned: AUM – Assets under management FIs – Financial Institutions NPI – Net property income



1. Valuation

We value CLAR using a 3-stage dividend discount model by applying a cost of equity of 7.0% and a risk-free rate of 2.75%. While the advanced distribution of SGD6.479c equates to SGD15.15c of FY25 DPU, which is slightly above our estimate of SGD15.03c, we leave our forecasts unchanged due to occupancy slippages in 1Q25 and as we await completion of the deals. While the relatively short WALE (especially with low occupancy for island-wide business parks and upcoming DC capacity in the region) and thin accretion for the business park is something to monitor, the deal enhances CLAR's exposure to the value-added/hi-tech industrial sector. Maintain BUY for its strong credit, diversified portfolio and exposure to high-value R&D/manufacturing.

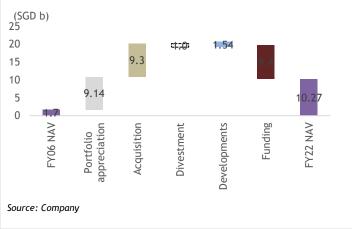
2. Risks

Non-renewal of leases in the US and the UK/EU, higher interest rates, lower valuation of overseas properties, structural vacancy in business parks and higher capex for older DCs, speculative development projects, and unnecessary diversification in various geographies

Value Proposition

- Second largest listed S-REIT, and first and largest listed within the industrial sub-sector; backed by sponsor Ascendas-Singbridge, acquired by CapitaLand 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.

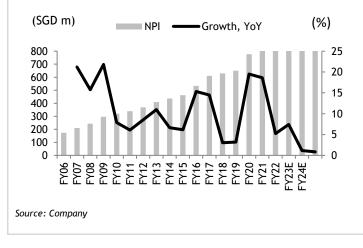
NAV growth (FY06-21)



Financial Metrics

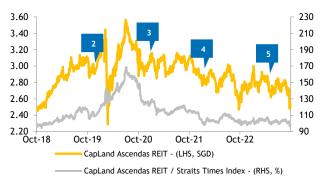
- DPUs for FY22-25E to be resilient given favourable logistics, business parks and hi-specs industrial exposure, and rising contribution from recent overseas acquisitions.
- Downside may come from rapid overseas expansion, especially in US business park and Europe DCs. Older Singapore business parks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

NPI growth profile



Price Drivers

Historical share price trend





- 1. Jan-19: CapitaLand 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 CapitaLand Development into new innovation campus to projected 6.3% NPI yield
- 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.

<u>1*Risk Rating & Score*</u> - 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. <u>2*Score*</u> <u>*Momentum*</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3*Controversy Score*</u> - 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).

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FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Price/DPU(x)	20.0	16.9	17.4	17.0	16.1
P/BV (x)	1.3	1.1	1.1	1.1	1.1
P/NTA (x)	1.3	1.1	1.1	1.1	1.1
DPU yield (%)	5.0	5.9	5.8	5.9	6.2
FCF yield (%)	6.0	8.4	8.5	8.6	9.0
INCOME STATEMENT (SGD m)	4 470 9	1 522 0	1 EOE E	1 537 0	1 502 9
Revenue	1,479.8	1,523.0	1,505.5	1,527.0	1,592.8
Net property income	1,023.2	1,050.0	1,053.8	1,068.9	1,115.0
Management and trustee fees	(102.8)	(98.6)	(100.5)	(101.6) (274.0)	(103.0) (280.0)
Net financing costs Associates & JV	(256.7) 0.5	(271.3) 0.5	(277.8) 0.5	(274.0)	(280.0)
		65.7			
Exceptionals	(492.0) 0.0		0.0	0.0	0.0
Other pretax income/expenses	0.0 172.2	0.0 746.3	0.0 676.0	0.0 693.9	0.0 732.4
Pretax profit	6.3	17.9	-		
Income tax Minorities	6.3 0.0	0.0	(27.0) 0.0	(27.8) 0.0	(29.3) 0.0
		0.0	0.0	0.0	0.0
Discontinued operations Total return avail to unitholders	0.0 1 78.5	0.0 764.2	0.0 649.0	0.0 666.1	0.0 703.1
Core net profit	505.6	546.9	661.9	679.3	703.1
Distributable inc to unitholders	654.4	668.8	661.9	679.3	716.7
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BALANCE SHEET (SGD m)					
Cash & Short Term Investments	221.6	167.7	197.7	227.7	257.7
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
Inverstment properties	17,595.4	17,657.0	17,833.6	18,011.9	18,192.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	111.4	118.6	118.6	118.6	118.6
Other assets	341.4	325.6	325.6	325.6	325.6
Total assets	18,269.8	18,269.0	18,475.6	18,683.9	18,894.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	423.5	412.1	412.1	412.1	412.1
LT interest bearing debt	6,520.9	6,524.8	6,674.8	6,824.8	6,974.8
Other liabilities	1,105.1	1,023.6	1,023.6	1,023.6	1,023.6
Total Liabilities	8,049.5	7,960.5	8,110.5	8,260.5	8,410.5
Shareholders Equity	10,220.3	10,307.8	10,364.4	10,422.7	10,482.9
Minority Interest	0.0	0.7	0.7	0.7	0.7
Total shareholder equity	10,220.3	10,308.5	10,365.1	10,423.4	10,483.5
Total liabilities and equity	18,269.8	18,269.0	18,475.6	18,683.9	18,894.0
CASH FLOW (SGD m)					
Cash flow from operations	956.3	947.7	978.2	991.7	1,035.2
Capex	(171.2)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(757.8)	(65.1)	(150.0)	(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	3.3	3.4	0.5	0.5	0.5
CF from investing activities	(925.7)	(61.6)	(149.5)	(149.5)	(149.5)
Dividends paid	(660.6)	(657.8)	(661.9)	(679.3)	(716.7)
Interest expense	(253.6)	(278.8)	(277.8)	(274.0)	(280.0)
Change in debt	400.4	0.7	150.0	150.0	150.0
Equity raised / (purchased)	485.6	(9.0)	(9.0)	(9.0)	(9.0)
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(28.2)	(944.9)	(798.7)	(812.2)	(855.7)
Effect of exchange rate changes	2.2	5.0	0.0	0.0	0.0
Net cash flow	4.6	(53.8)	30.0	30.0	30.0

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	9.4	2.9	(1.2)	1.4	4.3
Net property income growth	5.6	2.6	0.4	1.4	4.3
Core net profit growth	4.5	8.2	21.0	2.6	5.5
Distributable income growth	(1.4)	2.2	(1.0)	2.6	5.5
Profitability ratios (%)					
Net property income margin	69.1	68.9	70.0	70.0	70.0
Core net profit margin	34.2	35.9	44.0	44.5	45.0
Payout ratio	nm	87.5	102.0	102.0	101.9
DuPont analysis					
Total return margin (%)	12.1	50.2	43.1	43.6	44.1
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 (%)	1.8	7.7	6.5	6.6	6.9
ROAA (%)	2.8	3.0	3.6	3.7	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.3	2.3	2.2
Net gearing (%) (excl. perps)	61.6	61.7	62.5	63.3	64.1
Net interest cover (x)	3.6	3.5	3.4	3.5	3.6
Debt/EBITDA (x)	7.1	6.9	7.0	7.1	6.9
Capex/revenue (%)	11.6	0.0	0.0	0.0	0.0
Net debt/ (net cash)	6,299.3	6,357.1	6,477.1	6,597.1	6,717.1
Debt/Assets (x)	0.36	0.36	0.36	0.37	0.37

Source: Company; Maybank IBG Research

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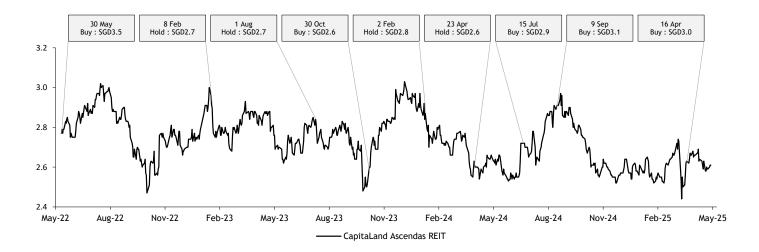
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