

27 February 2024

Property | REITS

Cromwell European REIT (CERT SP)

Buy (Maintained)

Proving Its Resilience; BUY

Target Price (Return): EUR2.10 (+47%)
 Price (Market Cap): EUR1.43 (USD871m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (EUR/USD) 1.12m/1.21m

- **Maintain BUY and EUR2.10 TP, 47% upside and 11% yield.** Cromwell European REIT's 2H23 DPU met expectations. Portfolio occupancy, although dipped slightly, remains high at >94% with positive rent reversions, which is expected to continue this year. CERT has a comfortable balance sheet position with high liquidity on the back of its proactive divestment strategy over the last two years. Asset redevelopment plans offer medium-term upside potential, in our view, and the REIT is undervalued, trading at >c.30% discount to book.
- **Adjusted 2H DPU -4% YoY, +1% HoH; flattish FY24 DPU expected.** Adjusted FY23 DPU (excluding divestments and acquisition) fell 4% YoY mainly from higher financing costs (+33%) offsetting NPI growth. Portfolio value (excluding capex) fell by a modest 3% YoY and 6% YoY (including capex), on stronger logistics performance and diversified asset portfolio. The resilient performance is backed by CERT's ongoing pivot towards the European logistics sector, which now accounts for c.53% of total. All-in interest cost is expected to peak at c.3.4% this year as c.88% of its debt remains hedged.
- **Targeting another EUR170m divestments in the next two years.** The bulk of the divestments ahead are likely to come from its Poland and Finland office portfolio. CERT has been the stand out among overseas S-REITs that have managed to successfully execute divestments in last two years amid the challenging market. It has divested eight assets since FY22 raising EUR237m in proceeds at a blended 15% premium to the latest valuation. The successful divestments, in our view, is a testament to the REIT's strong on-the-ground management team efforts and good quality bite-size assets in attractive locations.
- **Portfolio occupancy saw a slight dip but remains high at 94.3%** (-90bps QoQ) mainly from increased vacancies of its Denmark light industrial assets and development completions in the Czech Republic and Slovakia that are still ramping up. Office occupancy, on the other hand, rose 120bps QoQ to 90.3% with more leasing done in Netherlands and France. While some large office tenants have been reducing space upon lease renewals – this has been largely backfilled. Rent reversion (2H23) remains healthy, at +5.7%, and we expect this to remain in the mid-single digits in FY24.
- **Asset redevelopment plans on track**, with the completion of Nervesa 21, Milan and two smaller warehouse developments last year. CERT still has a pipeline of >EUR200m development plans across four assets, with the largest value driver being the redevelopment potential for Parc des Docks in Paris.
- **We fine tune FY24F-25F DPU by +1%.** ESG score of 3.3 (out of 4.0) is two notch above the country median and as such, a 4% ESG premium is included to our TP.

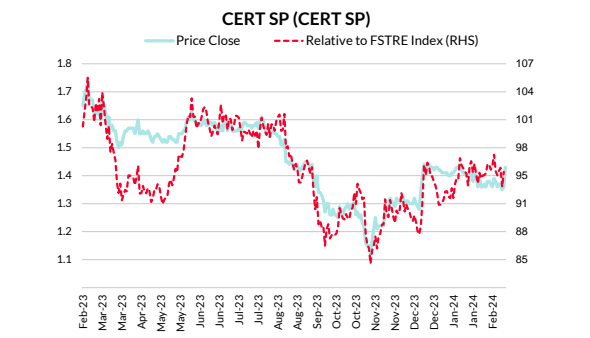
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.7	1.4	9.2	(0.7)	(15.9)
Relative	8.4	3.5	11.1	3.6	(2.4)
52-wk Price low/high (EUR)	1.12 – 1.74				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (EURm)	222	216	219	228	231
Net property income (EURm)	137	134	137	143	148
Reported net profit (EURm)	44.3	(74.6)	87.8	95.7	97.5
Total distributable income (EURm)	101	90	93	94	97
DPS (EUR)	0.17	0.16	0.16	0.16	0.16
DPS growth (%)	1.3	(8.7)	(0.1)	1.8	2.9
P/B (x)	0.59	0.68	0.68	0.67	0.67
Dividend Yield (%)	12.0	11.0	11.0	11.2	11.5
Return on average equity (%)	3.2	(5.9)	7.4	8.0	8.2
Return on average assets (%)	1.7	(3.0)	3.7	3.9	3.8

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

Target to achieve net zero by 2040. Plan to increase proportion of green-certified office buildings to at least 90% by NLA by 2025. The REIT uses Deepki – an ESG intelligence tool to collect and monitor ESG data which will then be used to achieve its energy targets.

S: GOOD

Significant increase in Net Promoter Score in tenant-customer engagement survey to +9.9 (up from -2.4) and 82% satisfaction with asset management team. High employee engagement score of 89% for the second consecutive year.

G: EXCELLENT

Majority independent Board and Independent Non-Executive Chairman. High level of earnings transparency as well as active investor engagement and regular updates during COVID-19 and in current volatile market conditions.

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Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (EUR)	0.08	0.11	0.16	0.17	0.17
Property	EPS (EUR)	0.08	0.13	0.16	0.17	0.17
Cromwell European REIT	DPS (EUR)	0.17	0.16	0.16	0.16	0.16
CERT SP	BVPS (EUR)	2.42	2.12	2.11	2.12	2.12
Buy	Return on average equity (%)	3.2	(5.9)	7.4	8.0	8.2
	Weighted avg adjusted shares (m)	562.39	562.39	562.39	562.39	562.39
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM	Recurring P/E (x)	18.41	na	9.16	8.40	8.25
	P/E (x)	18.17	na	9.16	8.40	8.25
	P/B (x)	0.6	0.7	0.7	0.7	0.7
	FCF Yield (%)	6.6	0.4	8.7	9.8	9.9
	Dividend Yield (%)	12.0	11.0	11.0	11.2	11.5
	EV/EBITDA (x)	-	5.81	4.49	4.58	4.48
	EV/EBIT (x)	-	5.93	4.58	4.58	4.48
Key drivers	Income statement (EURm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Diversified European Portfolio with more than half of its assets in resilient logistics/light industrial sector;	Total turnover	222	216	219	228	231
ii. Rental uplift from inflation linked rent escalations; and	EBITDA	125	126	126	132	136
iii. Active capital recycling and hands on investment and property management team in individual markets.	Depreciation and amortisation	(2)	(2)	0	0	0
	Operating profit	122	123	126	132	136
	Net interest	(24)	(32)	(34)	(37)	(39)
	Exceptional income - net	1	(10)	0	0	0
	Pre-tax profit	56	(61)	92	107	108
	Taxation	(14)	(16)	(6)	(13)	(13)
	Recurring net profit	44	(62)	88	96	97
Key risks	Cash flow (EURm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Weak Eurozone macroeconomic outlook and potential slowdown of economy into a recession;	Change in working capital	(5)	1	4	10	8
ii. Increase in potential tenant default and slowdown in rent collection;	Cash flow from operations	92	86	95	104	105
iii. Re-acceleration in interest rates impacting borrowing costs and reducing yield spreads.	Capex	(39)	(83)	(25)	(25)	(25)
	Cash flow from investing activities	(106)	112	(25)	(25)	(25)
	Dividends paid	(96)	(94)	(88)	(90)	(92)
	Cash flow from financing activities	(10)	(162)	(24)	(23)	(79)
	Cash at beginning of period	59	35	74	120	176
	Net change in cash	(24)	35	46	56	0
	Ending balance cash	35	71	120	176	176
Company Profile	Balance sheet (EURm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Cromwell European REIT has a principal mandate to invest, directly or indirectly, in income-producing commercial real estate assets across Europe with a minimum portfolio weighting of at least 75% to Western Europe and at least 75% to the light industrial / logistics and office sectors.	Total cash and equivalents	35	74	120	176	176
	Total investments	2,509	2,242	2,266	2,302	2,339
	Total other assets	28	13	14	14	14
	Total assets	2,590	2,367	2,425	2,516	2,554
	Short-term debt	51	0	35	87	88
	Total long-term debt	964	948	972	997	1,023
	Total liabilities	1,167	1,112	1,172	1,260	1,295
	Shareholders' equity	1,359	1,191	1,188	1,192	1,195
	Total equity	1,423	1,255	1,252	1,256	1,259
	Net debt	979	874	887	908	935
	Total liabilities & equity	2,590	2,367	2,425	2,516	2,554
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.0	(2.5)	1.3	3.8	1.4
	Recurrent EPS growth (%)	(55.7)	(242.5)	0.0	9.0	1.8
	Operating EBITDA margin (%)	56.2	58.0	57.3	57.9	58.9
	Net profit margin (%)	19.9	(34.5)	40.0	42.1	42.2
	Dividend payout ratio (%)	218.4	(118.2)	100.4	93.7	94.7
	Capex/sales (%)	17.5	38.4	11.2	11.0	11.0
	Interest cover (x)	5.02	3.80	3.73	3.60	3.49

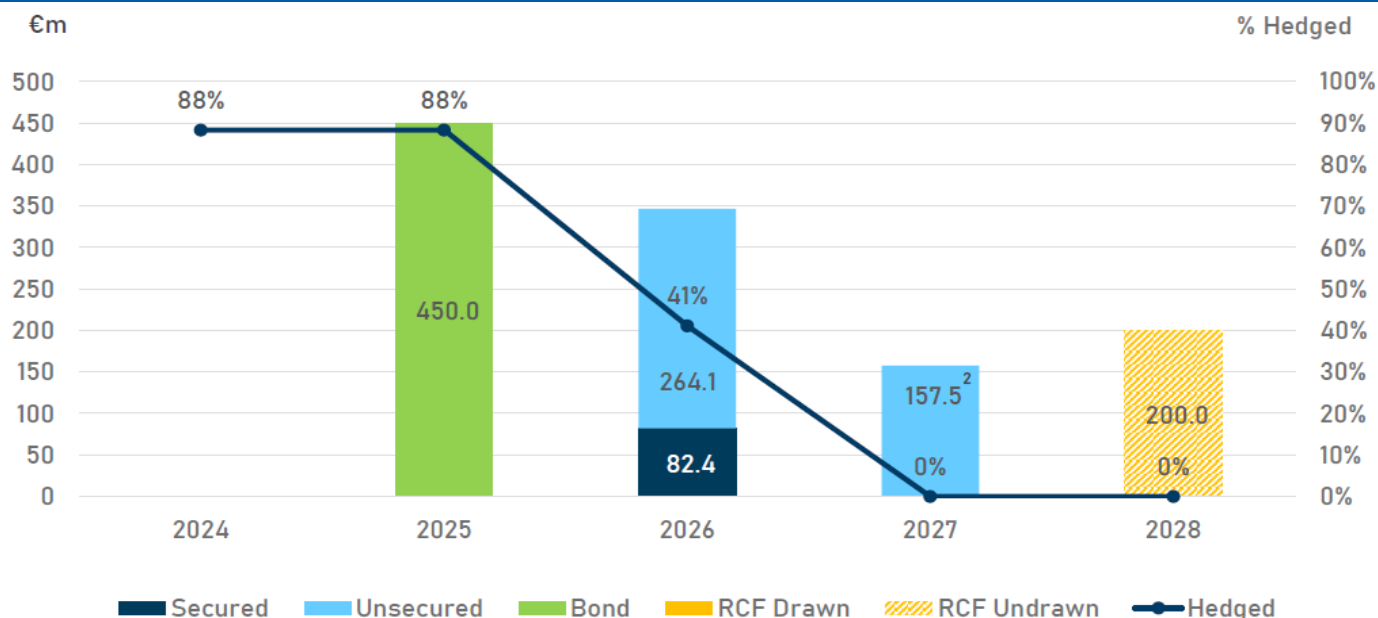
Source: Company data, RHB

Figure 1: DDM valuation table

	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (EUR cents)	15.67	15.95	16.41	16.74	17.08	218.57
FV (EUR)	2.02					
ESG premium/(Disc) (EUR cents)	0.08					
TP (EUR)	2.10					
Current price (EUR)	1.36					
Price upside	46.9%					
Distribution yield (FY24F)	11.0%					
Total return	57.9%					
Assumptions						
Risk-free rate: (%)	2.5					
Beta	0.9					
Cost of equity (%)	9.4					
Terminal growth: (%)	1.5					

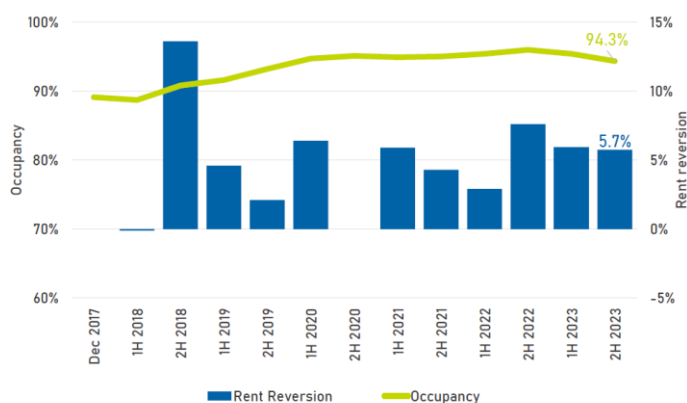
Source: RHB

Figure 2: No debt refinancing requirement until Nov 2025 with a high 88% debt hedge



Source: : Company data

Figure 3: Occupancy and rent reversion trend since IPO



1. Occupancy calculations exclude the Nervesa 21 redevelopment, Maxima (formerly known as Via del'Ambo Aradam 5) which is under strip-out works and Grzejcka 5, which is not allowed to be leased
 2. As at 31 December 2023
 3. By NLA

Source: Company data

Figure 4: Low Top-10 tenant concentration risk

#	Tenant-customer	Country	% of Total Headline Rent ²
1	Nationale Nederlanden Nederland B.V.	Netherlands	4.4%
2	Agenzia Del Demanio	Italy	3.2%
3	Essent Nederland B.V.	Netherlands	2.8%
4	Employee Insurance Agency (U.WV) ³	Netherlands	2.2%
5	Kamer van Koophandel	Netherlands	2.0%
6	Motorola Solutions ⁴	Netherlands	2.0%
7	Holland Casino ⁵	Netherlands	1.9%
8	Thorn Lighting	United Kingdom	1.7%
9	Felss Group	Germany	1.5%
10	Coolblue B.V.	Netherlands	1.5%
			23.1%

Source: Company data

Emissions And ESG

Trend analysis

2021 total absolute GHG emissions increased 13.3% YoY to 61,180 tonnes CO₂e, up from 46,838 tonnes CO₂e in 2020. 24.6% of the 2021 GHG emissions (15,023 tonnes CO₂e; "Scope 3") were directly attributable to tenant customer's daily activities. 2021 absolute emissions intensity decreased 13.7% as compared to 2019 even though total recorded consumption increased 10.9% in 2021. This was predominantly due to the positive impact of the energy efficiency measures undertaken in the previous year.

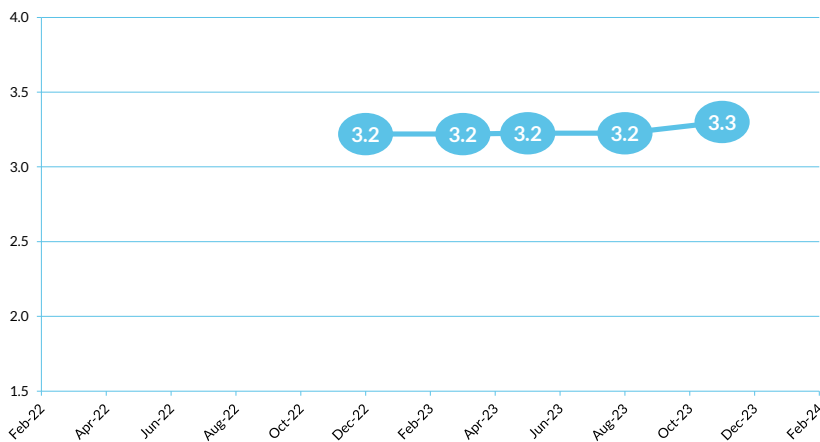
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	5,959	na	na
Scope 2	40,198	na	na
Scope 3	15,023	na	na
Total emissions	61,180	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- 77% of office portfolio by value have achieved green certification by 2022 compared to zero at IPO (2017).
- In 2022 the REIT Manager conducted a materiality review for CERT, facilitated by an independent advisor Ernst & Young.
- CERT's scope emission data reporting currently lags by a year due to its complex nature of assets across geographies and huge tenant base but the REIT is working to make these data available more timely by 2025.

ESG Rating History



Source: RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2023-11-14	Buy	2.10	1.28
2023-08-14	Buy	2.15	1.54
2023-07-02	Buy	2.15	1.56
2023-05-15	Buy	2.15	1.53
2023-02-26	Buy	2.15	1.70
2022-12-21	Buy	2.15	1.51

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Analyst	Company
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