

23 April 2024

Property | REITS

## CapitaLand Ascendas REIT (CLAR SP)

**Buy** (Maintained)

**Strong Rent Growth Offsetting Lower Occupancy; BUY**

Target Price (Return): SGD3.20 (+26%)  
 Price (Market Cap): SGD2.55 (USD8,323m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (SGD/USD) 36.2m/30.2m

- **Keep BUY and SGD3.20 TP, 26% upside and 6% yield.** CapitaLand Ascendas REIT's business update (1Q) showed continued strong momentum in rent growth offset by slightly higher vacancies. During the quarter, the REIT completed the divestment of three Australian assets and more of such divestments are likely this year. Near-term focus should be on asset redevelopment while acquisition pace could be slower amid recent interest rate volatility and rising interest cost pressure. Key catalysts are early rate cuts and continued strong rent growth.

- **Positive rent reversion (1Q) of 16.9%** (4Q: 15.2%, FY23: 13.4%) indicating continued strong demand for industrial assets. Singapore portfolio remains a key growth driver, registering a healthy double-digit (+16%) rent reversion during the quarter led by the logistics segment which saw a stellar 62% increase in renewal rates highlighting the strong market rent growth over the last few years. Management maintained its guidance for a mid-single digit rent reversion; however, we see room for an upside surprise to potentially low double-digit levels from positive demand supply dynamics and tenant receptiveness amid a high inflationary environment.

- **Slight dip in portfolio occupancy to 92.3%** (-0.9 ppt QoQ) mainly came from the expiry of a single tenant in its Sydney logistics asset and lower occupancy at a logistics property in the US. Considering the positive demand-supply dynamics for the logistics sector, we expect the spaces to be backfilled in the coming quarters. Meanwhile occupancy at its UK portfolio declined due to the single-tenant lease expiry at the Welwyn Garden City data centre. Management is currently evaluating redevelopment plans for this asset, with the potential to significantly increase power capacity that can attract larger tenants but it could also involve significant upfront capex.

- **Gearing stands modest at 38.3%** (FY23: 37.9%) and we believe acquisitions, if any, in the near-term are likely to be more opportunistic and bite-sized (SGD50-200m range). Interest cost rose +30bps QoQ to 3.8%, which we believe is partially due to an increase in the hedging of the loans with 83% of the debt being fixed (up from 79% as and end 4Q23) with an average term of 3.5 years.

- **No changes to our estimates.** CLAR has one of the highest ESG scores among S-REITS at 3.4 (out of 4.0) on back of its consistent green initiatives. As the score is three notches above the country median, we apply an 6% ESG premium to our DDM derived TP.

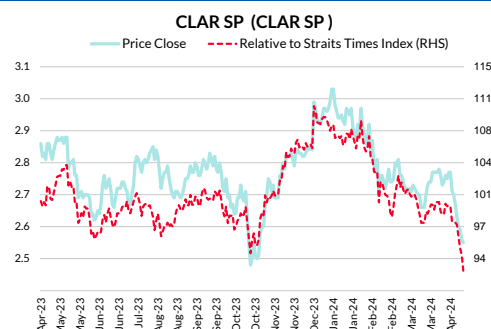
### Analyst

Vijay Natarajan  
 +65 6320 0825  
[vijay.natarajan@rhbgroup.com](mailto:vijay.natarajan@rhbgroup.com)



### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.9)	(6.9)	(12.7)	2.8	(11.5)
Relative	(15.4)	(7.1)	(15.1)	(2.0)	(8.6)
52-wk Price low/high (SGD)				2.48	-3.03



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	1,353	1,480	1,505	1,516	1,561
Net property income (SGDm)	969	1,023	1,056	1,084	1,116
Reported net profit (SGDm)	760	178	414	586	622
Total distributable income (SGDm)	484	506	558	579	606
DPS (SGD)	0.16	0.15	0.15	0.16	0.16
DPS growth (%)	3.6	(4.1)	0.8	3.1	3.8
P/B (x)	1.07	1.11	1.12	1.12	1.11
Dividend Yield (%)	6.2	5.9	6.0	6.2	6.4
Return on average equity (%)	7.6	1.8	4.2	5.9	6.2
Return on average assets (%)	4.3	1.0	2.3	3.2	3.3

Source: Company data, RHB

### Overall ESG Score: 3.4 (out of 4)

#### E: EXCELLENT

CLAR has set a target to achieve a minimum green rating for all its assets by 2030. About 77 of its 232 properties are green certified (46% of total GFA) up from 70 assets as at end 2022. 22 of its assets are fitted with five new additions in 2023. The REIT is committed to a Net Zero target for Scope1 and 2 emissions by 2050.

#### S: GOOD

All suppliers are screened using social and environmental criteria. CLAR also has internal targets to ensure that at least 92% of vendors attain a Level 3 in bizSAFE and above, and zero cases of validated discrimination. High employee engagement score of 84%(+1ppt YoY) at Group level. Diverse employee profile.

#### G: EXCELLENT

CLAR has a diverse board with 62.5% being independent directors. More than half the management team are women. High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS (SGD)	0.15	0.05	0.10	0.14	0.15
Property	EPS (SGD)	0.18	0.04	0.10	0.13	0.14
<b>CapitaLand Ascendas REIT</b>	DPS (SGD)	0.16	0.15	0.15	0.16	0.16
CLAR SP	BVPS (SGD)	2.37	2.30	2.28	2.28	2.29
Buy	Return on average equity (%)	7.6	1.8	4.2	5.9	6.2
	Weighted avg adjusted shares (m)	4,163.64	4,258.31	4,343.73	4,374.04	4,381.02
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
DDM	Recurring P/E (x)	16.47	47.29	24.68	17.81	16.98
	P/E (x)	13.96	60.84	26.76	19.03	17.96
<b>Key drivers</b>	P/B (x)	1.1	1.1	1.1	1.1	1.1
i. Diversified industrial assets with high exposure to business parks and logistics sector,	FCF Yield (%)	9.0	8.7	9.1	8.3	8.9
ii. Largest and most liquid in Industrial S-REIT space, and	Dividend Yield (%)	6.2	5.9	6.0	6.2	6.4
iii. Strong and Capable Sponsor.	EV/EBITDA (x)	- 1.93	- 2.20	- 2.18	- 2.03	- 1.87
	EV/EBIT (x)	- 1.93	- 2.20	- 2.18	- 2.03	- 1.87
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Shorter land leases in Singapore,	Total turnover	1,353	1,480	1,505	1,516	1,561
ii. Unexpected tenant defaults from economic slowdown, and	EBITDA	867	920	950	978	1,009
iii. Government policy measures impacting industrial space.	Depreciation and amortisation	1	(0)	0	0	0
	Operating profit	868	920	950	978	1,009
	Net interest	(188)	(257)	(267)	(244)	(240)
	Pre-tax profit	845	172	469	645	684
	Taxation	(84)	6	(55)	(59)	(62)
	Recurring net profit	645	230	449	626	658
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
CapitaLand Ascendas Real Estate Investment Trust (A-REIT) is the largest industrial SREIT with a diverse, income producing portfolio of business park (including science park), light industrial, hi-tech industrial and logistic properties in Singapore, Australia, Europe and US.	Change in working capital	172	42	(43)	(15)	15
	Cash flow from operations	1,018	956	1,079	1,002	1,062
	Capex	(67)	(17)	(70)	(71)	(72)
	Cash flow from investing activities	(374)	(926)	(291)	(265)	(242)
	Dividends paid	(650)	(661)	(668)	(697)	(732)
	Cash flow from financing activities	(782)	(28)	(786)	(732)	(801)
	Cash at beginning of period	369	217	222	224	232
	Net change in cash	(139)	2	3	5	19
	Ending balance cash	217	222	226	232	253
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	217	222	224	232	253
	Total investments	17,078	17,569	17,815	17,931	18,048
	Total other assets	436	323	331	339	347
	Total assets	17,876	18,270	18,475	18,607	18,755
	Short-term debt	633	960	1,214	1,514	1,214
	Total long-term debt	5,309	5,467	5,521	5,371	5,821
	Total liabilities	7,609	8,050	8,230	8,310	8,400
	Shareholders' equity	9,968	9,921	9,945	9,997	10,056
	Minority interests	299	299	299	299	299
	Total equity	10,267	10,220	10,244	10,296	10,355
	Net debt	5,725	6,206	6,511	6,653	6,782
	Total liabilities & equity	17,876	18,270	18,475	18,607	18,755
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	10.3	9.4	1.7	0.7	2.9
	Recurrent EPS growth (%)	(33.0)	(65.2)	91.6	38.6	4.9
	Operating EBITDA margin (%)	64.1	62.2	63.2	64.5	64.6
	Net profit margin (%)	56.2	12.1	27.5	38.7	39.9
	Dividend payout ratio (%)	87.3	366.6	161.3	117.7	115.3
	Capex/sales (%)	4.9	1.1	4.7	4.7	4.6
	Interest cover (x)	4.62	3.59	3.57	4.01	4.19

Source: Company data, RHB

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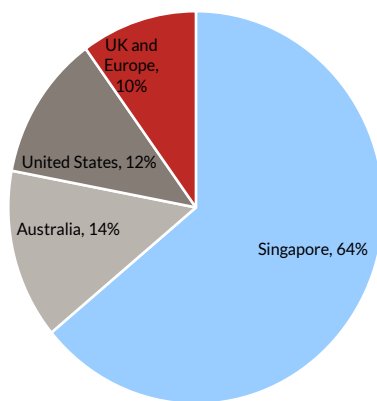
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Figure 1: DDM valuation table

DDM	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (SG cents)	15.3	15.8	16.4	17.0	17.7	328.4
Fair value (SGD)	3.02					
ESG						
Premium/(discount)	0.18					
<b>Target Price (SGD)</b>	<b>3.20</b>					
Current price (SGD)	2.56					
Price upside (%)	25.5					
Distribution yield (%)	6.0					
Total returns (%)	31.5					
<b>Assumptions:</b>						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.0					
Terminal growth (%)	1.5					

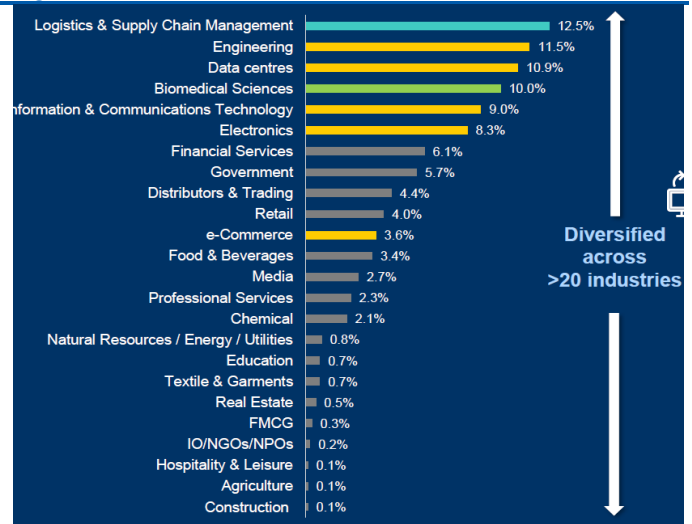
Source: Company data, RHB

Figure 2: Portfolio breakdown by markets – total SGD16.9bn



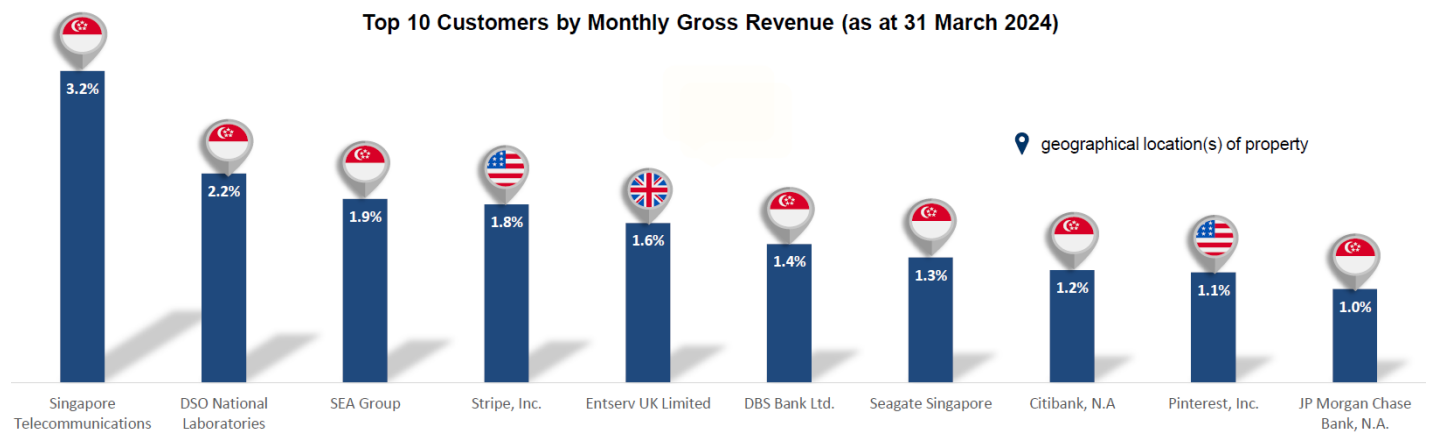
Source: Company data

Figure 3: Diversified tenant sectors (based on monthly rents)



Source: Company data

Figure 4: Minimal tenant concentration risks with no tenant accounting for &gt;4% of income



Source: Company data

## Emissions And ESG

### Trend analysis

For FY23, Scope 1&2 emissions increased 0.6%YoY due to slight increase in energy consumption on back of acquisitions. Overall energy intensity though fell by 2.8% on the back of energy efficiency upgrades across assets. CLAR has increased the proportion of renewable energy consumption across assets to 14.1% from 14.0%.

### Emissions (tCO<sub>2</sub>e)

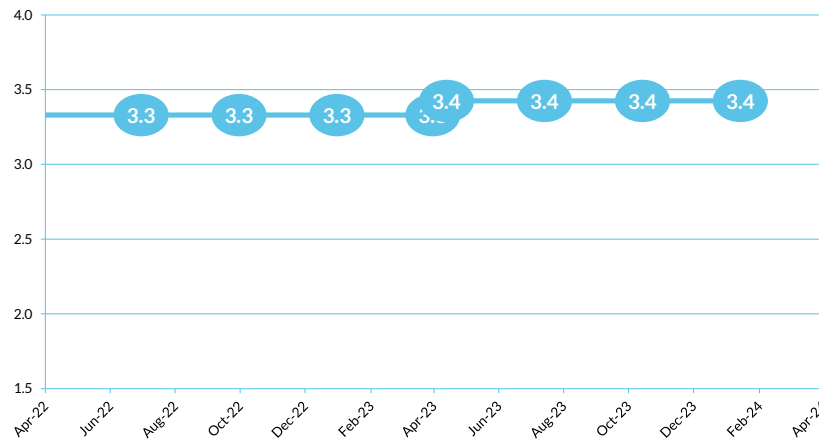
	Dec-21	Dec-22	Dec-23
Scope 1	573	491	507
Scope 2	50,377	48,671	48,943
Scope 3	na	na	163,917
Total emissions	50,950	49,162	213,367

Source: Company data, RHB

## Latest ESG-Related Developments

- Five assets in Singapore were fitted with solar panels in FY23.
- In 2023, its sponsor CLI revised its Sustainability Master Plan 2030 target on the consumption of renewable energy from 35% to 45% by 2030.
- 62 additional EV installations across CLAR's global portfolio in FY23, raising the total number of installations to 338.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-04	Buy	3.20	2.87
2023-07-31	Buy	3.20	2.81
2023-05-16	Buy	3.25	2.88
2023-05-04	Buy	3.25	2.84
2023-02-05	Buy	3.25	3.00
2022-10-31	Buy	3.15	2.62
2022-09-20	Buy	3.60	2.82
2022-07-07	Buy	3.60	2.89
2022-02-09	Buy	3.60	2.88
2021-12-15	Buy	3.60	2.93
2021-10-20	Buy	3.60	3.04
2021-08-02	Buy	3.50	3.12
2021-06-21	Neutral	3.20	2.93
2021-03-18	Neutral	3.20	3.07
2021-02-03	Neutral	3.15	3.16

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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#### KUALA LUMPUR

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 2302 8100  
Fax : +603 2302 8134

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470