

31 July 2024

Property | REITS

CapitaLand Ascendas REIT (CLAR SP)

Buy (Maintained)

Focus On Asset Enhancements; BUY

Target Price (Return): SGD3.20 (19.4%)
 Price (Market Cap): SGD2.68 (USD8,760m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 28.8m/21.3m

- **Keep BUY and SGD3.20 TP (19% upside), c.6% yield.** CapitaLand Ascendas REIT's 1H DPU was in line. Portfolio occupancy dipped slightly QoQ, offset by still-healthy double-digit rent reversions. Management raised its FY24 rent growth expectations to a high-single-digit level, which we believe is still conservative, while occupancy is expected to be relatively flattish. Near-term focus is likely to be on asset enhancements with acquisitions and divestments being more opportunistic. Financing costs are likely nearing its peak as majority of its debt remains well hedged.
- **Portfolio rent reversion (2Q) of 11.7% (1H: 13.4%),** with all markets registering growth and the key driver being the Singapore logistics sector. CLAR noted that while logistics sector demand remains positive, rent growth is likely to taper to mid-single digits in coming years as the market rent gap has narrowed. Portfolio occupancy stood at 93.1% (-0.2ppts QoQ), with the decline mainly from the US (87.7%, -1.8ppts QoQ) due to the exit of tenants at two single-tenant properties (a logistics asset in Kansas City and a business space in Portland). Overall it expects full-year occupancy to be at 93-94%.
- **Changi Business Park assets have hit inflection point.** The assets (c.6% of overall NPI) which have been under pressure in recent years from tenant exits/downsizing, have reached an inflection point, according to management. ONE@Changi City, which is undergoing enhancements, will [welcome Singapore Airlines](#) as a new tenant in 2Q25. CLAR also noted that authorities are now more receptive to the idea of change of usage for some of its assets in the area.
- **Discussions ongoing for Welwyn Garden City, UK,** involving a data centre (DC) asset which CLAR is looking at redeveloping with a significant increase in power capacity (c.60MW). It is currently in discussion with the authorities. With the new UK government [planning to boost DC infrastructure](#), we see good potential to generate higher returns from the asset.
- **1H DPU fell 2.5% YoY, up 1.1% HoH.** YoY decline was due to an enlarged unit base while distributable income rose HoH on the back of contribution from new assets/redevelopments and lower operating expenses. NPI margins for 2H are expected to be similar and slightly better in FY25F from lower utility costs. Financing costs rose c.20bps in 1H24 to 3.7% and are expected to be maintained at the same level for the full year, as c.83% of its debt is hedged.
- **Maintain estimates.** CLAR has one of the highest ESG scores among S-REITS, given its consistent green initiatives. As the score is three notches above the country median, we applied a 6% ESG premium to our DDM derived TP.

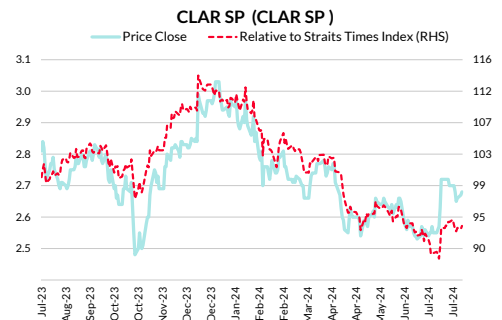
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.6)	4.7	3.1	(7.0)	(6.0)
Relative	(17.8)	1.4	(1.4)	(16.3)	(8.1)
52-wk Price low/high (SGD)				2.48	-3.03



Source: Bloomberg

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.

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)	1.13	1.17	1.18	1.17	1.17
Dividend Yield (%)	5.9	5.7	5.7	5.9	6.1
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

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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
CapitaLand Ascendas REIT	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
Valuation basis						
DDM	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	17.31	49.70	25.94	18.71	17.84
	P/E (x)	14.67	63.94	28.12	20.00	18.87
	P/B (x)	1.1	1.2	1.2	1.2	1.2
	FCF Yield (%)	8.5	8.2	8.7	7.9	8.4
	Dividend Yield (%)	5.9	5.7	5.7	5.9	6.1
	EV/EBITDA (x)	(1.30)	(1.60)	(1.59)	(1.45)	(1.30)
	EV/EBIT (x)	(1.30)	(1.60)	(1.59)	(1.45)	(1.30)
Key drivers						
i. Diversified industrial assets with high exposure to business parks and logistics sector;						
ii. Largest and most liquid in industrial S-REIT space;						
iii. Strong and capable sponsor.						
Key risks						
i. Shorter land leases in Singapore;						
ii. Unexpected tenant defaults from economic slowdown;						
iii. Government policy measures impacting industrial space.						
Company Profile						
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.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	1,353	1,480	1,505	1,516	1,561
	EBITDA	867	920	950	978	1,009
	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
	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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

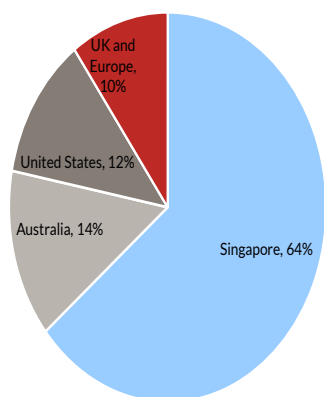
Source: Company data, RHB

Figure 1: DDM valuation table

DDM	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (SGD cents)	15.3	15.8	16.4	17.0	17.7	328.4
Fair value (SGD)	3.02					
ESG Premium/(discount)	0.18					
TP (SGD)	3.20					
Current price (SGD)	2.68					
Price upside (%)	19.4					
Distribution yield (%)	5.7					
Total returns (%)	25.1					
Assumptions:						
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

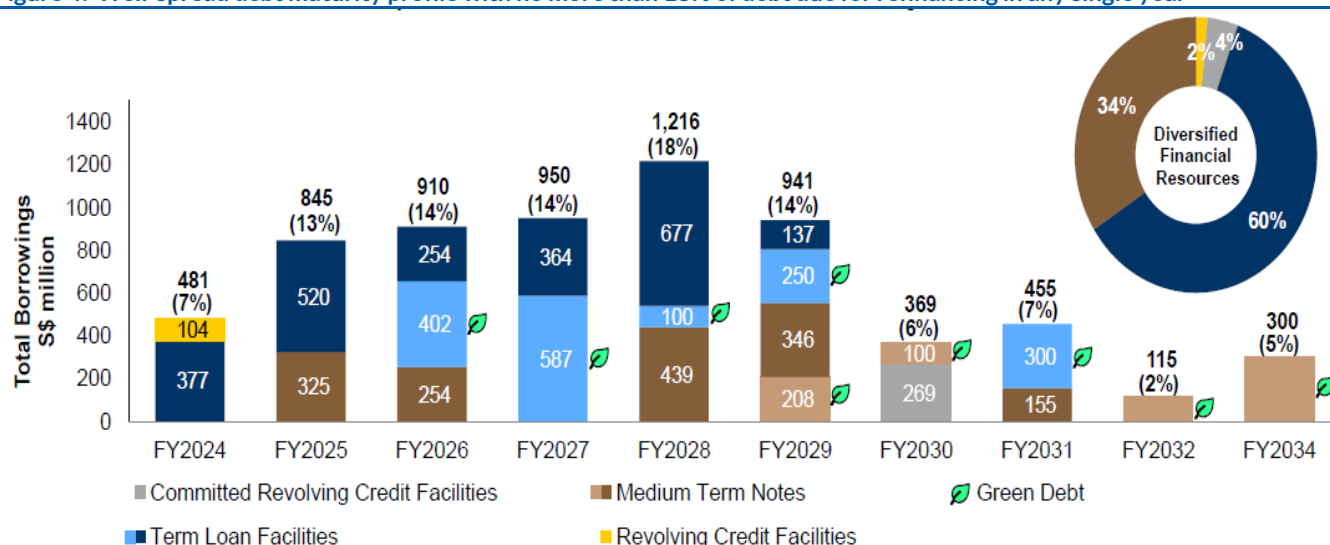
Figure 3: Healthy rent reversion across markets

% Change in Renewal Rates for Multi-tenant Buildings ⁽¹⁾	2Q 2024	1Q 2024	2Q 2023
Singapore	11.9%	16.0%	19.5%
Business Space and Life Sciences	8.3%	5.8%	17.9%
Logistics	24.9%	62.0%	39.1%
Industrial and Data Centres	13.9%	11.4%	9.7%
United States	11.9%	- ⁽²⁾	11.0%
Business Space and Life Sciences	9.6%	- ⁽²⁾	9.5%
Logistics	13.5%	- ⁽²⁾	11.3%
Australia	7.7%	- ⁽²⁾	12.9%
Business Space	- ⁽²⁾	- ⁽²⁾	12.9%
Logistics	7.7%	- ⁽²⁾	- ⁽²⁾
United Kingdom/Europe	10.1%	- ⁽²⁾	- ⁽²⁾
Data Centres	10.1%	- ⁽²⁾	- ⁽²⁾
Logistics	- ⁽²⁾	- ⁽²⁾	- ⁽²⁾
Total Portfolio	11.7%	16.0%	18.0%

(1) Percentage change of the average gross rent over the lease period of the renewed leases against the preceding average gross rent from lease start date. Takes into account renewed leases that were signed in their respective periods and average gross rents are weighted by area renewed.
 (2) There were no renewals signed in the period for the respective segments.

Source: Company data

Figure 4: Well-spread debt maturity profile with no more than 18% of debt due for refinancing in any single year



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%.

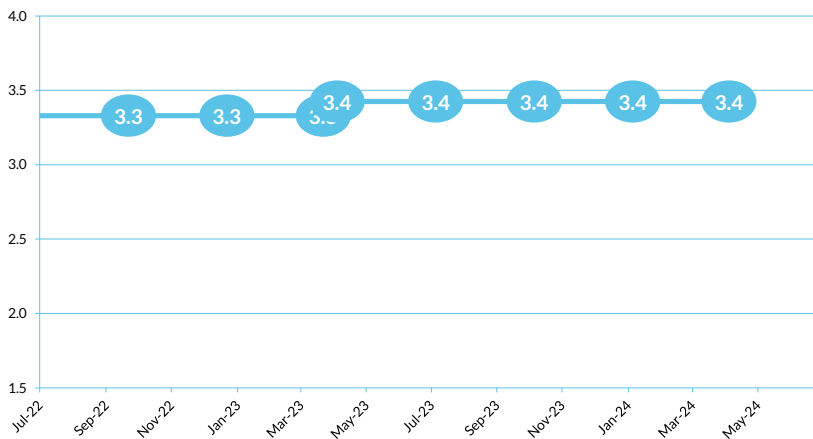
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	573	491	507
Scope 2	50,377	48,671	48,943
Scope 3	na	na	163,917
Total emissions	50,950	49,162	213,367

Source: Company data, RHB

Latest ESG-Related Developments

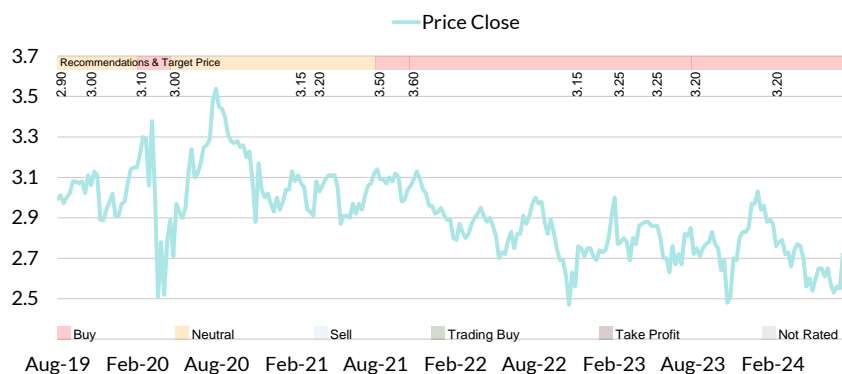
- Five assets in Singapore were fitted with solar panels in FY23.
- In 2023, its sponsor revised its sustainability master plan 2030 target on consumption of renewable energy from 35% to 45% by 2030.
- 62 additional EV installations across CLAR's global portfolio in FY2023, raising the total number of installations to 338.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-22	Buy	3.20	2.55
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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-	-

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