

27 May 2024

Property | REITS

## Cromwell European REIT (CERT SP)

**Buy** (Maintained)

### Minimal Impact From The Change Of Sponsor

Target Price (Return): EUR2.05 (+41%)  
 Price (Market Cap): EUR1.45 (USD884m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (EUR/USD) 0.61m/0.66m

- **Maintain BUY and EUR2.05 TP, 41% upside and c.11% yield.** Cromwell European REIT's announcement of a new sponsor and major shareholder is broadly neutral and should have minimal impact to its strategy and operations. The substantial stake acquired at a premium to the current traded price indicates good value in the REIT seen by its new sponsor. We expect CERT to continue its deleveraging and asset enhancement strategy, with a pivot towards the logistics and industrial sector, and see tailwinds to its share price from interest rate cuts in 2H.
- **Stoneweg emerges as the new sponsor and substantial shareholder** for CERT by way of acquiring Australian listed Cromwell Property Group's (CMW AU, NR) - its current sponsors - entire European platform for EUR280m (~SGD 412m). The sum consideration includes CERT's entire stake (27.8% stake) for EUR237.5m, or EUR1.52/share (7% premium to the 3-month volume-weighted average price or VWAP), and 100% of the REIT manager's and property manager's interest as well as other associated co-investments for EUR42.5m. The move does not come as a surprise to us and is mainly on the back of Cromwell's plan to lighten its balance sheet and focus on the core Australian real estate market. The sale was done via a bidding process ([link](#)) with Stoneweg emerging as the winner among several bidders. The transaction is subject to regulatory approvals and is expected to be completed by 3Q24.
- **Stoneweg is a Swiss HQ real estate manager and advisory group** established in 2015 with a gross asset value under management of EUR4.0bn and has executed EUR6.2bn in transactions across asset classes and in markets such as Europe, the UK and the US. Stoneweg's funds also currently manage logistics and industrial assets in harder to penetrate markets such as Switzerland, and last-mile logistics assets in Europe which in the medium term could act as potential pipeline assets for CERT. Additionally, it also manages Varia US Properties (VARN SW, NR), listed in the Swiss Stock Exchange, which has a portfolio of US residential real estate assets worth USD1.3bn.
- **Divestments and asset redevelopment to continue** as we expect CERT to achieve its stated EUR400m divestment plans by next year. Since 2022, the REIT has divested 11 assets for EUR262m, at a blended 14% premium to valuation and another EUR60m of assets are currently in advanced stages. This has helped the REIT better manage financing cost pressures as well as gearing challenges amidst valuation declines from rising cap rates. CERT has also achieved healthy preleasing for three of its redevelopment assets that will contribute positively to income from 2H.
- **No earnings changes.** ESG score of 3.3 (out of 4.0) is two notch above the country median, and as such, a 4% ESG premium is ascribed to our TP.

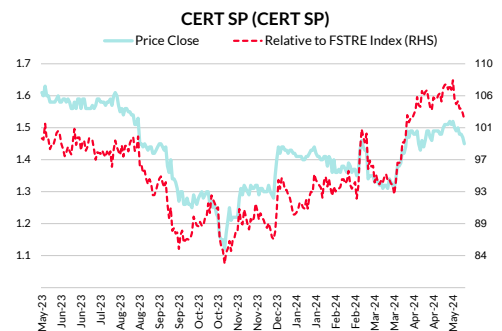
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.1	(2.7)	6.6	10.7	(7.1)
Relative	13.1	(3.1)	10.2	16.1	6.1
52-wk Price low/high (EUR)				1.12	-1.63



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26I
Total turnover (EURm)	222	216	212	217	219
Net property income (EURm)	137	134	132	135	137
Reported net profit (EURm)	44.3	(74.6)	80.3	92.2	93.8
Total distributable income (EURm)	101	90	90	91	94
DPS (EUR)	0.17	0.16	0.15	0.15	0.16
DPS growth (%)	1.3	(8.7)	(3.4)	1.8	2.8
P/B (x)	0.60	0.68	0.69	0.69	0.69
Dividend Yield (%)	11.9	10.8	10.5	10.6	10.9
Return on average equity (%)	3.2	(5.9)	6.8	7.8	7.9
Return on average assets (%)	1.7	(3.0)	3.4	3.9	3.9

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 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 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	0.14	0.16	0.17
Property	EPS (EUR)	0.08	0.13	0.14	0.16	0.17
<b>Cromwell European REIT</b>	DPS (EUR)	0.17	0.16	0.15	0.15	0.16
CERT SP	BVPS (EUR)	2.42	2.12	2.10	2.11	2.11
Buy	Return on average equity (%)	3.2	(5.9)	6.8	7.8	7.9
	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)	18.66	na	10.16	8.84	8.70
	P/E (x)	18.42	na	10.16	8.84	8.70
	P/B (x)	0.6	0.7	0.7	0.7	0.7
	FCF Yield (%)	6.6	0.4	7.1	8.7	8.6
	Dividend Yield (%)	11.9	10.8	10.5	10.6	10.9
	EV/EBITDA (x)	-	5.72	-	4.40	-
	EV/EBIT (x)	-	5.72	-	4.57	-
	EV/EBIT (x)	-	5.83	-	4.48	-
	EV/EBIT (x)	-	5.83	-	4.57	-
	EV/EBIT (x)	-	5.83	-	4.57	-
	EV/EBIT (x)	-	5.83	-	4.57	-
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 the resilient logistics and light industrial sector;	Total turnover	222	216	212	217	219
ii. Rental uplift from inflation-linked rent escalations;	EBITDA	125	126	121	124	126
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	121	124	126
	Net interest	(24)	(32)	(32)	(33)	(33)
	Exceptional income - net	1	(10)	0	0	0
	Pre-tax profit	56	(61)	78	103	104
	Taxation	(14)	(16)	0	(13)	(13)
	Recurring net profit	44	(62)	80	92	94
Key risks	Cash flow (EURm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Weak Eurozone macro outlook and potential slowdown of economy into a recession;	Change in working capital	(5)	1	(2)	10	8
ii. Increase in potential tenant defaults and slowdown in rent collections;	Cash flow from operations	92	86	87	100	100
iii. Re-acceleration in interest rates impacting borrowing costs and reducing yield spreads.	Capex	(39)	(83)	(29)	(29)	(30)
	Cash flow from investing activities	(106)	112	2	(29)	(30)
	Dividends paid	(96)	(94)	(85)	(87)	(89)
	Cash flow from financing activities	(10)	(162)	(83)	(65)	(68)
	Cash at beginning of period	59	35	74	79	85
	Net change in cash	(24)	35	6	6	2
	Ending balance cash	35	71	79	85	87
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	79	85	87
	Total investments	2,509	2,242	2,244	2,284	2,325
	Total other assets	28	13	14	14	14
	Total assets	2,590	2,367	2,361	2,407	2,450
	Short-term debt	51	0	6	9	12
	Total long-term debt	964	948	948	977	1,006
	Total liabilities	1,167	1,112	1,113	1,156	1,197
	Shareholders' equity	1,359	1,191	1,184	1,187	1,189
	Total equity	1,423	1,255	1,248	1,251	1,253
	Net debt	979	874	874	901	932
	Total liabilities & equity	2,590	2,367	2,361	2,407	2,450
Key metrics	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.0	(2.5)	(2.0)	2.2	1.0
	Recurrent EPS growth (%)	(55.7)	(242.5)	0.0	14.9	1.7
	Operating EBITDA margin (%)	56.2	58.0	57.2	57.4	57.6
	Net profit margin (%)	19.9	(34.5)	37.8	42.5	42.8
	Dividend payout ratio (%)	218.4	(118.2)	106.2	94.1	95.1
	Capex/sales (%)	17.5	38.4	13.7	13.4	13.6
	Interest cover (x)	5.02	3.80	3.75	3.77	3.81

Source: Company data, RHB

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Figure 1: DDM valuation table

	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (EUR cents)	15.16	15.43	15.86	16.26	16.66	213.29
<b>FV (EUR)</b>	1.97					
ESG premium/(Disc) (EUR cents)	0.08					
TP (EUR)	2.05					
Current price (EUR)	1.47					
Price upside	41.3%					
Distribution yield (FY24F)	10.5%					
<b>Total return</b>	<b>51.8%</b>					
<b>Assumptions</b>						
Risk-free rate: (%)	2.5					
Beta	0.9					
Cost of equity (%)	9.4					
Terminal growth: (%)	1.5					

Source: RHB

## Emissions And ESG

### Trend analysis

The 2021 total absolute GHG emissions increased 13.3% YoY to 61,180 tonnes CO<sub>2</sub>e, up from 46,838 tonnes CO<sub>2</sub>e in 2020. 24.6% of the 2021 GHG emissions (15,023 tonnes CO<sub>2</sub>e; 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.

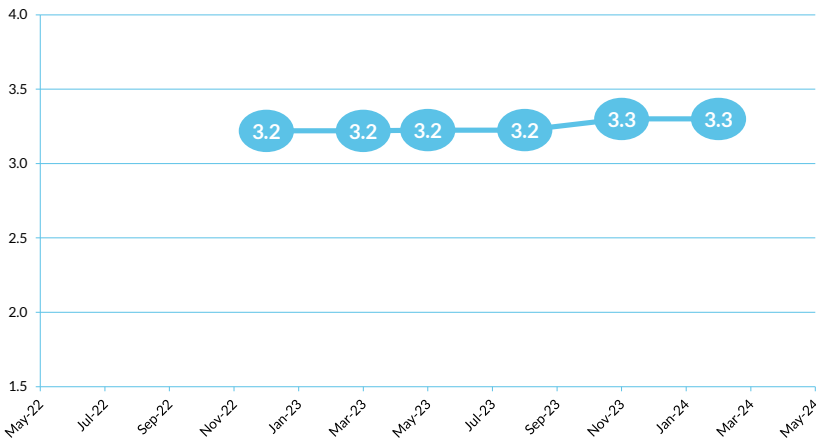
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	5,959	na	na
Scope 2	40,198	na	na
Scope 3	15,023	na	na
Total emissions	61,180	na	na

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 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



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-02	Buy	2.05	1.49
2024-02-26	Buy	2.10	1.43
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

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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
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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-	-

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