

2 May 2024

Property | REITS

## Cromwell European REIT (CERT SP)

**Buy** (Maintained)

### Capital Management Initiatives On Track; BUY

Target Price (Return): EUR2.05 (37.5%)  
 Price (Market Cap): EUR1.49 (USD895m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (EUR/USD) 0.62m/0.67m

- **Keep BUY, TP revised to EUR2.05 from EUR2.10, 38% upside, 10% yield.** Cromwell European REIT's indicative 1Q DPU came in slightly below on a timing mismatch from divestment income losses and contributions from redevelopment projects. Nonetheless, the REIT has been making steady progress on its EUR400m divestment plans, with another three asset divestments since the start of 2024. YTD, CERT has been amongst the best performers with a 5% gain, and we see share price recovery continuing with the European Central Bank well poised to begin rate cuts in 2H.
- **EUR400m divestment plans on track.** Despite challenging capital market conditions CERT announced the divestment of three non-core assets (one each in Poland, Italy, and Finland) so far this year for EUR23m in total and at a blended c.5% premium to the latest valuation. This brings total asset divestments to 11 since the announcement of its asset recycling plans in 2022, with total divestment proceeds of EUR261m at a blended 14% premium over valuation. Another EUR60m worth of assets are currently in advanced stages of divestments. The divestment proceeds should help bring CERT's net gearing close to c.39% levels and help fund some of its planned asset redevelopment initiatives.
- **Contributions from three asset redevelopments to kick in from 2Q.** Redevelopments of Nervesa 21 (Italy), Lovosice ONE Industrial Park I (Czech Republic), and Novo Mesto ONE Industrial Park I/III (Slovak Republic) have been completed on budget for EUR60m. Pre-leasing for these assets stands at 70-90%, with full leasing expected by mid-2024 based on current active leasing interest. CERT expects an ROI of c.6.5% on these redevelopments, well above market comparable cap rates of c.5%.
- **Strong portfolio rent reversion (1Q)** of +9.2% (FY23: +5.7%) – aided by the office (+10.3%) and logistics (+5%) portfolios. Portfolio occupancy did decline 2.2ppts QoQ to 93.4% – mainly on inclusion of redevelopment assets that are currently being leased up. We expect this to increase back to c.94-95% levels in the coming quarter on expected full leasing of redevelopment assets.
- **1Q indicative DPU fell 10% YoY** due to lower net property income (NPI) (-3% YoY) on non-core asset sales last year, excluding which same-store NPI would have been higher 5% YoY with increased financing costs (+20%) – partially offset by one-off reinstatement income of EUR1.2m from Padova, Italy. Financing costs rose 9bps QoQ to 3.28%. We expect it to peak at mid-3% levels this year with c.86% debt hedges and no loan maturity till 4Q25.
- **We lower FY24F-26F DPU** by 3%, factoring in divestments and tweaking margins and financing cost assumptions. The ESG score of 3.3 (out of 4.0) is above the 3.1 country median score, so we embed a 4% ESG premium to TP.

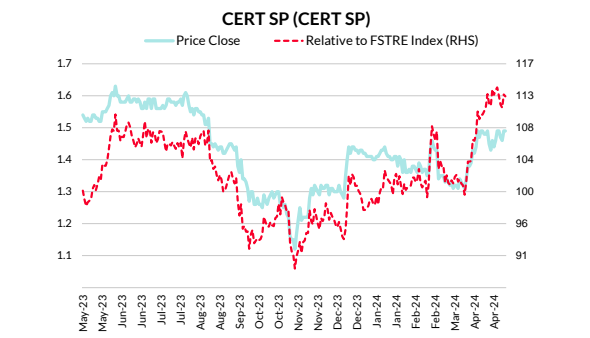
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	8.0	5.7	29.6	(3.3)
Relative	16.2	9.9	11.9	28.1	12.9
52-wk Price low/high (EUR)				1.12	-1.63



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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)	0.62	0.70	0.71	0.71	0.70
Dividend Yield (%)	11.5	10.5	10.2	10.4	10.6
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

Targets to achieve net zero by 2040. Plans 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 a 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	0.14	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
<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)	19.18	na	10.44	9.09	8.94
	P/E (x)	18.93	na	10.44	9.09	8.94
	P/B (x)	0.6	0.7	0.7	0.7	0.7
	FCF Yield (%)	6.4	0.4	6.9	8.4	8.3
	Dividend Yield (%)	11.5	10.5	10.2	10.4	10.6
	EV/EBITDA (x)	-	5.54	4.22	4.38	4.40
	EV/EBIT (x)	-	5.65	4.30	4.38	4.40
<b>Key drivers</b>	<b>Income statement (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Diversified European Portfolio with more than half of its assets in resilient logistics/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
<b>Key risks</b>	<b>Cash flow (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Weak Euro zone 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
<b>Company Profile</b>	<b>Balance sheet (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
	<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 (%)	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

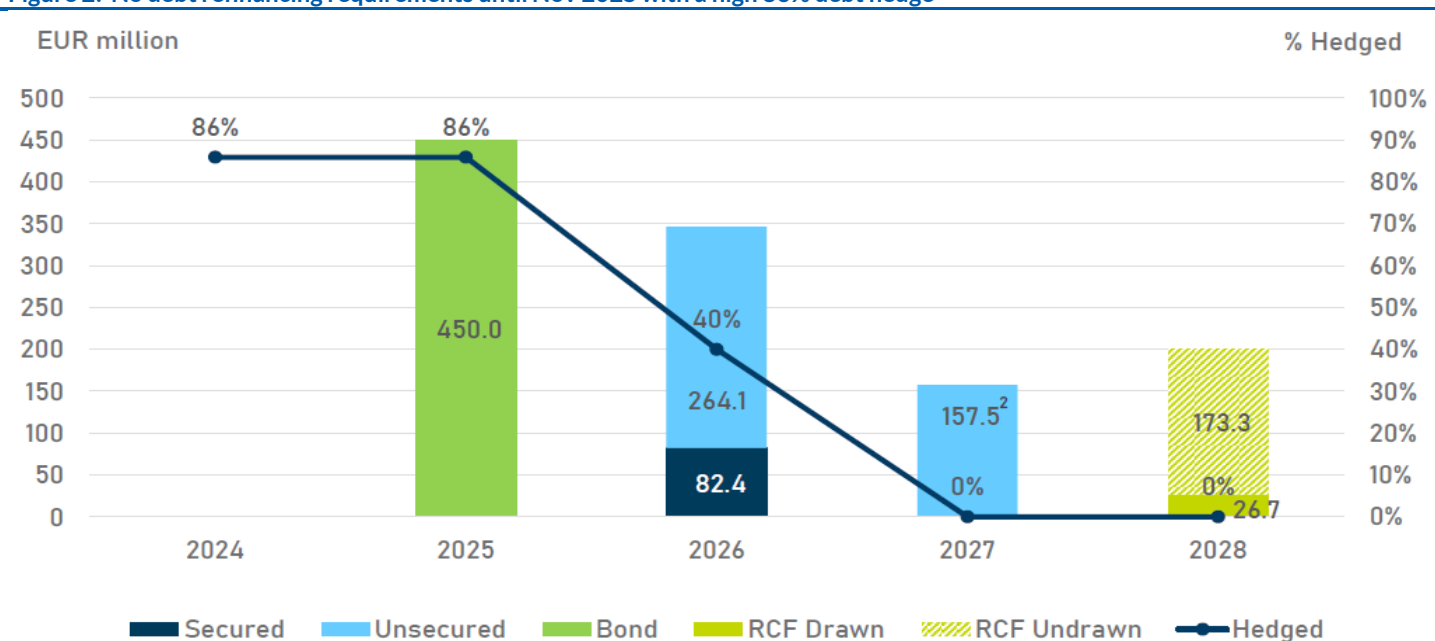
Source: Company data, RHB

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)	1.49					
Price upside	37.5%					
Distribution yield (FY24F)	10.2%					
<b>Total return</b>	<b>47.7%</b>					
<b>Assumptions</b>						
Risk-free rate: (%)	2.5					
Beta	0.9					
Cost of equity (%)	9.4					
Terminal growth: (%)	1.5					

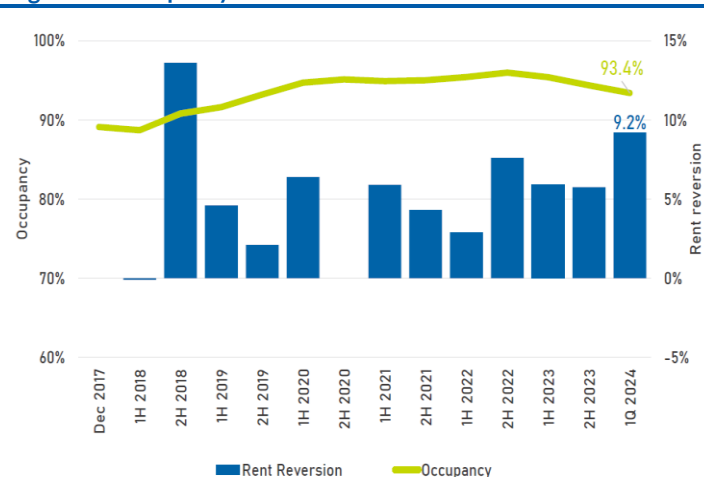
Source: RHB

Figure 2: No debt refinancing requirements until Nov 2025 with a high 86% debt hedge



Source: Company data

Figure 3: Occupancy and rent reversion trends since the IPO



Source: Company data

Figure 4: Low top-10 tenant concentration risk

#	Tenant-customer	Country	% of Total Headline Rent
1	Nationale Nederlanden Nederland B.V.	Netherlands	4.5%
2	Agenzia Del Demanio	Italy	3.2%
3	Essent Nederland B.V.	Netherlands	2.7%
4	Employee Insurance Agency (U.WV) <sup>1</sup>	Netherlands	2.1%
5	Motorola Solutions <sup>2</sup>	Poland	2.0%
6	Kamer van Koophandel	Netherlands	2.0%
7	Holland Casino <sup>3</sup>	Netherlands	1.8%
8	Thorn Lighting	United Kingdom	1.7%
9	Felss Group	Germany	1.5%
10	Coolblue B.V.	Netherlands	1.4%
			22.9%

Source: Company data

## Emissions And ESG

### Trend analysis

The 2021 total absolute greenhouse gas (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.

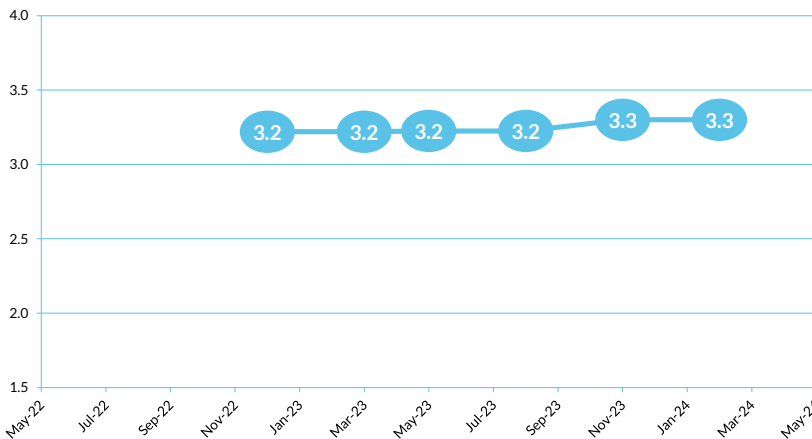
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	5,959	na	na
Scope 2	40,198	na	na
Scope 3	15,023	na	na
Total emissions	61,180	na	na

Source: Company data, RHB

## Latest ESG-Related Developments

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

## ESG Rating History



Source: RHB

## Recommendation Chart



Date	Recommendation	Target Price	Price
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

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 15% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 10% 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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