

16 May 2023

Property | REITS

CapitaLand Ascendas REIT (CLAR SP)

Buy (Maintained)

Strengthening Its Market Positioning; Stay BUY

Target Price (Return): SGD3.25 (12.9%)
 Price (Market Cap): SGD2.88 (USD9,055m)
 ESG score: 3.43 (out of 4)
 Avg Daily Turnover (SGD/USD) 28.7m/21.4m

- **Stay BUY and SGD 3.25 TP, 13% upside and 6% yield.** CapitaLand Ascendas REIT's proposed acquisition of Seagate's R&D facility is positive – we like the asset's modern specifications, location, and long lease term. It is also in the process of finalising another acquisition in Europe and redevelopment of a logistics facility in Singapore. These transactions will be partially funded by equity placement and is marginally accretive. Overall, we believe the transaction reinforces CLAR's dominant positioning in the business space and life sciences sectors, and the one-north cluster.
- **The acquisition of The Shugart** (Seagate's Singapore headquarters) for SGD218m is a c.5% discount to latest valuation. The 8-year-old modern specification asset located in the prime one-north cluster is mainly used for R&D purposes and has a balance 20-year lease. Initial NPI yield is an attractive 8.3% (post-transaction cost: 7.8%), ie slightly higher than recent transactions and indicating a slight softening in pricing expectations in our view amid the rising interest rate hurdles. Additionally, The Shugart comes with a long 10-year master lease (with an option to extend another 10 years) and a built-in annual escalation of 2.5%. Post transaction, business parks will account for c.49% of CLAR's portfolio with prime one-north cluster assets representing 13% of total assets under management or AUM. This acquisition is slated for completion by 2Q23.
- **CLAR is evaluating a potential European acquisition** that is located in one of the continent's key gateway cities and will be in its existing asset class of logistics/data centres. It is currently in an advanced due diligence stage and we expect the asset value to be in the range of c.SGD200m with an initial NPI yield of slightly >7%. In addition, the REIT also announced its plan to redevelop its existing cargo-lift logistics asset in Singapore into a modern ramp-up warehouse facility by maximising the asset's plot ratio. The estimated yield on cost for the redevelopment is c.7.5-8.5%.
- **Equity placement to raise a minimum of SGD450m with the proceeds to be used to fund the above transactions and debt repayments.** While the equity fundraising in the current challenging market may act as a slight overhang on CLAR's share price, we believe it helps in better positioning its balance sheet well with an overall lower gearing of 37.6%. The REIT is also actively looking at divestments to recycle and optimise its capital.
- **High ESG score 3.4 among S-REITs.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for more details. As CLAR's ESG score is four notches above country median score, we have applied an 8% ESG premium. We fine-tune our FY23-25F DPU by -2% to 1%, factoring in placement and timing delays from income contributions.

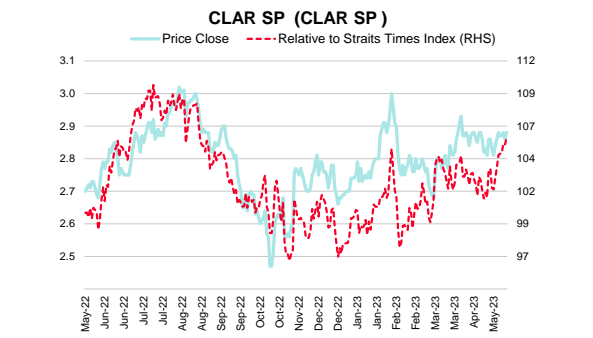
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	0.0	4.7	4.3	6.7
Relative	6.2	2.7	6.7	6.2	6.0
52-wk Price low/high (SGD)	2.47 – 3.02				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	1,227	1,353	1,457	1,505	1,516
Net property income (SGDm)	921	969	1,022	1,044	1,084
Reported net profit (SGDm)	957	760	599	519	598
Total distributable income (SGDm)	455	484	558	577	582
DPS (SGD)	0.15	0.16	0.16	0.16	0.16
DPS growth (%)	3.9	3.6	0.2	1.4	0.7
P/B (x)	1.19	1.21	1.18	1.20	1.20
Dividend Yield (%)	5.3	5.5	5.5	5.6	5.6
Return on average equity (%)	10.1	7.6	5.9	5.0	5.7
Return on average assets (%)	5.8	4.3	3.3	2.8	3.2

Source: Company data, RHB

Overall ESG Score: 3.43 (out of 4)

E: EXCELLENT

CLAR has the largest number of BCA Green Mark properties (58) within its total portfolio (70), public EV charging points (273), and combined solar farms (>21,000 solar panels) among the S-REITs. CLAR has increased the proportion of renewable energy usage for its portfolio in Singapore to 12.3%. The REIT is committed to a Net Zero target for Scope1 and 2 emissions by 2050.

S: GOOD

High employee engagement score of 81% for FY22. 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

G: EXCELLENT

CLAR has a diverse board with 62.5% being independent directors. High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (SGD)	0.23	0.15	0.14	0.12	0.14
Property	EPS (SGD)	0.25	0.18	0.14	0.12	0.14
CapitaLand Ascendas REIT	DPS (SGD)	0.15	0.16	0.16	0.16	0.16
CLAR SP	BVPS (SGD)	2.42	2.37	2.44	2.40	2.41
Buy	Return on average equity (%)	10.1	7.6	5.9	5.0	5.7
	Weighted avg adjusted shares (m)	3,896.82	4,163.64	4,242.10	4,317.39	4,353.48
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	12.46	18.60	20.39	23.96	20.98
	P/E (x)	11.73	15.77	20.39	23.96	20.98
	P/B (x)	1.2	1.2	1.2	1.2	1.2
	FCF Yield (%)	5.1	7.9	7.0	7.6	7.2
	Dividend Yield (%)	5.3	5.5	5.5	5.6	5.6
	EV/EBITDA (x)	- 2.97	- 2.98	- 2.43	- 2.57	- 2.45
	EV/EBIT (x)	- 2.97	- 2.97	- 2.43	- 2.57	- 2.45
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Diversified Industrial Assets with high exposure to the business parks and logistics sectors;	Total turnover	1,227	1,353	1,457	1,505	1,516
ii. Largest and most liquid in the Industrial S-REIT space;	EBITDA	820	867	908	929	975
iii. Strong and capable sponsor.	Depreciation and amortisation	(0)	1	0	0	0
	Operating profit	820	868	908	929	975
	Net interest	(159)	(188)	(218)	(229)	(235)
	Pre-tax profit	1,044	845	690	611	695
	Taxation	(86)	(84)	(91)	(92)	(97)
	Recurring net profit	901	645	599	519	598
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Shorter land leases in Singapore;	Change in working capital	(83)	172	38	13	(25)
ii. Unexpected tenant defaults from an economic slowdown;	Cash flow from operations	727	1,018	927	1,012	975
iii. Government policies that impact the industrial space.	Capex	(159)	(67)	(68)	(71)	(72)
	Cash flow from investing activities	(1,915)	(374)	(768)	(71)	(72)
	Dividends paid	(378)	(650)	(679)	(699)	(712)
	Cash flow from financing activities	1,277	(782)	(119)	(965)	(908)
	Cash at beginning of period	278	369	217	257	233
	Net change in cash	89	(139)	40	(24)	(5)
	Ending balance cash	369	217	257	233	228
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
CapitaLand Ascendas REIT is the largest industrial S-REIT with a diverse, income-producing portfolio of business parks (including science parks), light industrial, hi-tech industrial, and logistics properties in Singapore, Australia, Europe, and the US.	Total cash and equivalents	369	217	257	233	228
	Total investments	16,898	17,078	17,846	18,007	18,124
	Total other assets	376	436	442	453	464
	Total assets	17,730	17,876	18,679	18,829	18,952
	Short-term debt	901	633	300	500	800
	Total long-term debt	4,834	5,309	6,192	6,092	5,872
	Total liabilities	7,453	7,609	7,943	8,084	8,164
	Shareholders' equity	9,978	9,968	10,437	10,446	10,489
	Minority interests	299	299	299	299	299
	Total equity	10,277	10,267	10,736	10,745	10,788
	Net debt	5,366	5,725	6,235	6,359	6,444
	Total liabilities & equity	17,730	17,876	18,679	18,829	18,952
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	16.9	10.3	7.7	3.3	0.7
	Recurrent EPS growth (%)	64.5	(33.0)	(8.8)	(14.9)	14.3
	Operating EBITDA margin (%)	66.9	64.1	62.3	61.7	64.3
	Net profit margin (%)	78.0	56.2	41.1	34.5	39.4
	Dividend payout ratio (%)	65.8	87.3	113.2	134.7	117.9
	Capex/sales (%)	13.0	4.9	4.7	4.7	4.8
	Interest cover (x)	5.16	4.62	4.17	4.06	4.14

Source: Company data, RHB

Figure 1: CLAR's DDM valuation

	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (SGD cents)	15.8	16.1	16.4	16.9	17.5	326.2
Fair value (SGD)	3.01					
ESG Premium/(discount)	0.24					
TP (SGD)	3.25					
Current price (SGD)	2.88					
Price upside (%)	4.5					
Distribution yield (%)	5.5					
Total returns (%)	10.0					
Assumptions:						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.0					
Terminal growth (%)	1.5					

Source: RHB

Figure 2: Seagate's R&D and Singapore headquarters



Source: Company data

Figure 3: Details of asset and acquisition consideration

Purchase Consideration	S\$218.24 m (5.1% discount to independent market valuation)
Acquisition Fee ⁽¹⁾ , Stamp Duty and Other Transaction Costs	S\$14.18 m
Total Acquisition Cost	S\$232.4 m
Vendor	Seagate Singapore International Headquarters Pte Ltd
Valuation (as at 31 March 2023) ⁽²⁾	S\$230.0 m
Land Area	125,722 sq ft
Land Tenure	20 years remaining
Gross Floor Area / Net Lettable Area	440,028 sq ft
Occupancy Rate	100%
Lease Term	10 years (built-in rent escalation of 2.5% p.a. with an option to renew for an additional 10 years)
Initial NPI Yield ⁽³⁾	8.3% (7.8% post-transaction cost)
Estimated Completion Date	2Q 2023

Source: Company data

Recommendation Chart

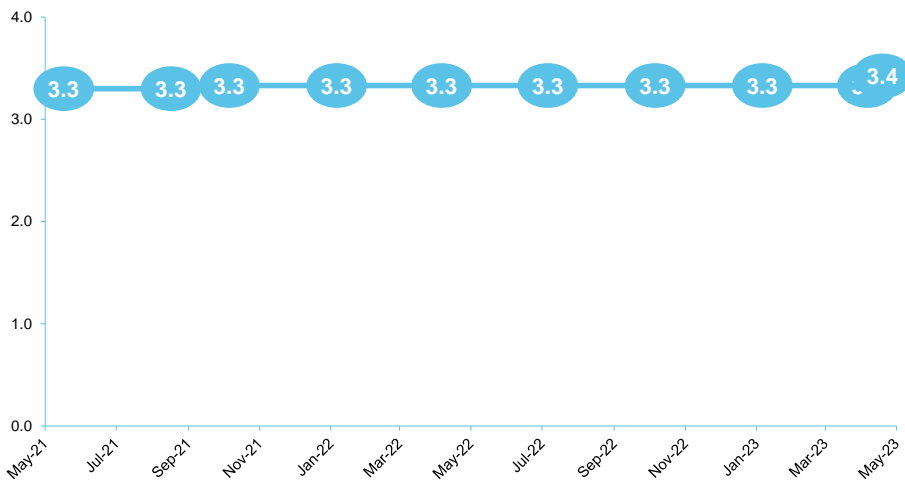


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-04-19	Neutral	3.00	2.89
2020-02-02	Buy	3.10	3.15
2019-11-04	Neutral	3.00	3.06

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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