

1 November 2022

Property | REITS

CapitaLand Ascendas REIT (CAREIT SP)

Buy (Maintained)

A Resilient Industrial Play; Keep BUY

Target Price (Return): SGD3.15 (20.2%)
 Price (Market Cap): SGD2.62 (USD7,772m)
 ESG score: 3.33 (out of 4)
 Avg Daily Turnover (SGD/USD) 31.8m/22.5m

- **Maintain BUY with a revised TP of SGD3.15 from SGD3.60, 20% upside and c.6% yield.** CapitaLand Ascendas REIT's (CLAS) healthy operational numbers in 3Q met expectations. Occupancy and rents continue to trend in the right direction with the outlook remaining positive. Its relatively healthy gearing also puts it in a good position to do selective deals like the two quality assets in Singapore which it acquired during the quarter. High debt hedge (78%) and the implementation of higher service charges mitigate interest rate and utility impact.
- **Operational strength continues** with portfolio occupancy increasing 0.5ppt QoQ to 94.5% (+2.8ppt YoY) on the back of occupancy improvements for its assets in Australia and the UK/Europe, driven by increased demand for logistic assets. Portfolio rent reversion (3Q) came at 5.4% (2Q: 13.2%) with all markets and all asset classes seeing positive rent reversion. Its US portfolio was the star performer with logistics leases renewed during the quarter that saw a 60% rent growth and business space assets rent increasing 11% indicating its right positioning and continued market demand. In Singapore logistics assets saw a +15% rent reversion reinforcing our views of multi-year rerating for the logistics sector. CLAS also implemented higher service charges for its Singapore leases from Oct 2022 to mitigate rising utility charges and inflationary cost pressures.
- **Adding its Singapore portfolio mix.** During the quarter, the REIT acquired a cold storage logistic asset at 1 Buroh Lane, with a 7% net property income (NPI) yield and high tech campus Philipps APAC Centre (7.2% yield) taking its total acquisitions for the year to SGD520m. Singapore accounts for 61% of total assets followed by the US (15%), Australia (14%), and UK/Europe (10%). Management had earlier guided for SGD1.0bn acquisition target pa but we expect it to come below that level for the year. It has also commenced redevelopment at one of its US assets to convert it from an office space to a life sciences building, at an estimated capex outlay of USD40m with an NPI yield post conversion at c.9.0%.
- **Fixed rate debt accounts for 78% of total** with every 50bps increase in interest rate impacting DPU by 1.1%. It has c.SGD1.3bn or c.20% of its debt due for refinancing up until 2023. FX: It has a relatively high level of natural hedge at 75% on the back of high proportion of debt taken in local currency.
- **We adjust lower our FY23F-24F DPU by 2%** mainly by adjusting our interest cost assumptions. We also raise out COE assumptions by 70bps factoring in sharp interest rate hikes resulting in a lower TP. CLAS has the highest ESG score of 3.3 out of 4.0, among REITs (based on our proprietary methodology). As this score is three notches above our country median, we applied a 6% premium to our intrinsic value to derive our TP.

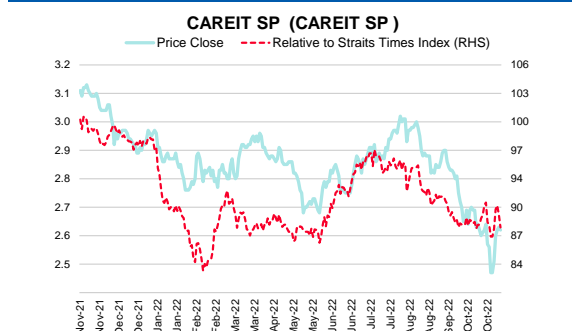
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.2)	(2.6)	(11.8)	(8.4)	(15.2)
Relative	(10.2)	(1.4)	(8.1)	(0.5)	(11.9)
52-wk Price low/high (SGD)	2.47 – 3.13				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,328	1,362	1,413
Net property income (SGDm)	776	921	1,011	1,034	1,062
Reported net profit (SGDm)	457	957	766	596	608
Total distributable income (SGDm)	431	455	510	527	535
DPS (SGD)	0.15	0.15	0.16	0.17	0.17
DPS growth (%)	26.3	3.9	5.4	2.7	1.3
P/B (x)	1.08	1.08	1.10	1.10	1.09
Dividend Yield (%)	5.6	5.8	6.1	6.3	6.4
Return on average equity (%)	5.5	10.1	7.7	5.9	6.0
Return on average assets (%)	3.2	5.8	4.3	3.3	3.3

Source: Company data, RHB

Overall ESG Score: 3.33 (out of 4)

E: EXCELLENT

CLAS has the largest number of BCA Green mark properties (40) total portfolio (49), largest number of public EV charging points (76) and largest combined solar farm (>21,000 solar panels) in Singapore by SREIT.

S: GOOD

Its approach to health and safety is guided by its Occupational Health and Safety Management System (OHSMS) accredited to ISO 45001. The group 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

High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

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Property | REITS

Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	0.14	0.23	0.18	0.14	0.14
Property	EPS (SGD)	0.13	0.25	0.18	0.14	0.14
CapLand Ascendas REIT	DPS (SGD)	0.15	0.15	0.16	0.17	0.17
CAREIT SP	BVPS (SGD)	2.43	2.42	2.39	2.39	2.40
Buy	Return on average equity (%)	5.5	10.1	7.7	5.9	6.0
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.26	4,203.99	4,210.09
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM	Recurring P/E (x)	18.65	11.34	14.38	18.69	18.32
	P/E (x)	19.76	10.67	14.25	18.49	18.13
Key drivers	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 (%)	6.2	5.6	10.2	10.5	10.3
ii. Largest and most liquid in S-REIT space, and	Dividend Yield (%)	5.6	5.8	6.1	6.3	6.4
iii. Strong and Capable Sponsor.	EV/EBITDA (x)	-	1.81 -	2.11 -	2.05 -	2.01
	EV/EBIT (x)	-	1.82 -	2.11 -	2.05 -	2.01
Key risks	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. High industrial supply and shorter land leases in Singapore,	Total turnover	1,049	1,227	1,328	1,362	1,413
ii. Tenant defaults and rental pressure, and	EBITDA	702	820	897	921	948
iii. Government Policy measures impacting industrial space	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	897	921	948
	Net interest	(159)	(159)	(180)	(201)	(214)
	Pre-tax profit	494	1,044	809	640	653
	Taxation	(37)	(86)	(44)	(44)	(45)
	Recurring net profit	484	901	759	589	602
Company Profile	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CapitaLand Ascendas REIT's (CLAS) is a property trust constituted by a trust deed. CLAS owns and invests in a diverse, income producing portfolio of business park (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.	Change in working capital	20	(83)	143	155	128
	Cash flow from operations	729	727	1,143	1,181	1,182
	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(530)	(30)	(50)
	Dividends paid	(598)	(378)	(510)	(527)	(535)
	Cash flow from financing activities	479	1,277	(700)	(1,120)	(1,106)
	Cash at beginning of period	96	278	369	281	313
	Net change in cash	223	89	(87)	31	27
	Ending balance cash	278	369	281	313	339
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	278	369	281	313	339
	Total investments	14,318	16,898	17,513	17,630	17,769
	Total other assets	453	376	382	387	396
	Total assets	15,123	17,730	18,254	18,411	18,587
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	5,341	5,641	5,741
	Total liabilities	5,933	7,453	7,927	8,049	8,188
	Shareholders' equity	8,892	9,978	10,029	10,062	10,100
	Minority interests	299	299	299	299	299
	Total equity	9,191	10,277	10,327	10,361	10,399
	Net debt	4,210	5,366	6,034	6,103	6,176
	Total liabilities & equity	15,123	17,730	18,254	18,411	18,587
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	50.1	16.9	8.3	2.5	3.8
	Recurrent EPS growth (%)	12.3	64.5	(21.1)	(23.1)	2.0
	Operating EBITDA margin (%)	66.9	66.9	67.6	67.7	67.1
	Net profit margin (%)	43.6	78.0	57.6	43.8	43.1
	Dividend payout ratio (%)	117.8	65.8	88.3	116.7	115.9
	Capex/sales (%)	16.3	13.0	2.3	2.2	3.5
	Interest cover (x)	4.38	5.16	5.00	4.58	4.44

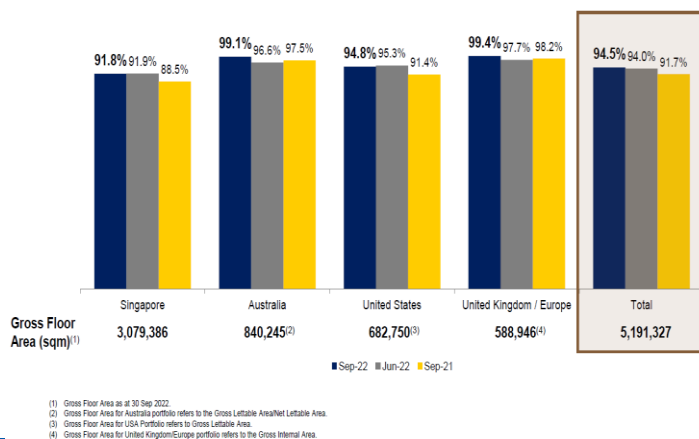
Source: Company data, RHB

Figure 1: CLAS' DDM valuation

	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SGD cents)	16.1	16.5	17.0	17.6	316.4
Fair value (SGD)	2.97				
ESG Premium/(discount)	0.18				
Target Price (SGD)	3.15				
Current price (SGD)	2.62				
Price upside (%)	20.2				
Distribution yield (%)	6.1				
Total returns (%)	26.3				
Assumptions:					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.2				
Terminal growth (%)	1.5				

Source: RHB

Figure 2: Occupancy trending higher



Source: Company data

Figure 3: Positive rent reversion across all segments

% Change in Renewal Rates for Multi-tenant Buildings ⁽¹⁾	3Q 2022	2Q 2022	3Q 2021
Singapore	4.4%	13.0%	3.6%
Business Space ⁽²⁾ and Life Sciences ⁽³⁾	3.2%	19.9%	3.7%
Logistics ⁽⁴⁾	14.6%	7.5%	4.6%
Industrial ⁽⁵⁾ and Data Centres	2.8%	4.4%	3.2%
Australia	0.2%	15.2%	.0%
Business Space ⁽²⁾	0.2%	.0%	.0%
Logistics	.0%	15.2%	.0%
United States	48.0%	15.3%	15.0%
Business Space ⁽²⁾	10.6%	15.3%	15.0%
Logistics	60.0%	.0%	N.A.
United Kingdom/Europe	.0%	11.7%	.0%
Data Centres	.0%	11.7%	.0%
Logistics	.0%	.0%	.0%
Total Portfolio	5.4%	13.2%	3.7%

- (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) Business Space segment comprises of properties located in business & science parks in Singapore, suburban offices in Australia, business park and office properties in USA.
- (3) Life Sciences segment comprises properties with lab-ready specifications (currently 7 business park properties in Singapore).
- (4) Includes Courts Magazine and Giant Hypermarket which have been reclassified from Integrated development, amenities and retail (IDAR) segment. These properties have large warehouse spaces (under the Retail (Warehouse) Scheme).
- (5) Comprises high-specifications and light industrial properties (includes Aperia which has been reclassified from IDAR segment given its predominant industrial space offerings).
- (6) There were no renewals signed in the period for the respective segments.

Source: Company data

Recommendation Chart

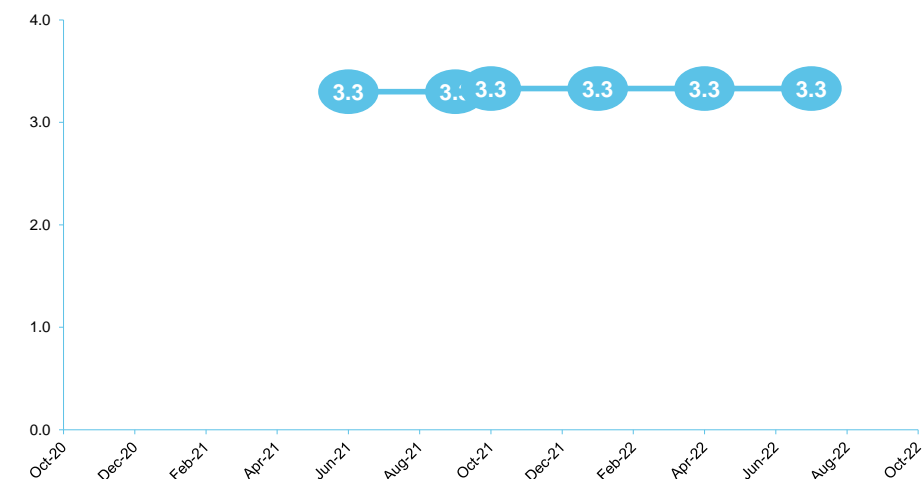


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-10-10	Neutral	3.00	3.09
2019-04-30	Neutral	2.90	2.94
2019-03-07	Neutral	2.90	2.78

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
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