

COMPANY RESULTS

CapitaLand Ascendas REIT (CLAR SP)

2H23: Continues To Generate Strong Positive Rental Reversions

CLAR continued to clock strong positive rental reversion of 15.2% in 4Q23 (Singapore: 16.9%, Australia: 21.8%, the US: 11.0%). Portfolio occupancy eased slightly by 0.3ppt qoq to 94.2% in 4Q23. CLAR has a resilient balance sheet with average debt maturity at 3.4 years. Management plans to scale up in new economy assets, including logistics properties. CLAR provides a resilient 2024 distribution yield of 5.3% (MINT: 5.6%). Maintain BUY with a target price of S\$3.62.

2H23 RESULTS

Year to 31 Dec (S\$m)	2H23	yoy % chg	Remarks
Gross Revenue	761.7	+11.0	Growth driven by acquisitions in Singapore and the UK.
Net Property Income (NPI)	514.3	+4.6	Higher utilities expenses and property taxes in Singapore.
Distributable Income	326.9	-1.9	Finance costs increased 26.5% yoy.
DPU (S cents)	7.441	-6.1	No. of units increased 4.5% due to private placement in May 23.

Source: CLAR, UOB KayHian

RESULTS

- CapitaLand Ascendas REIT (CLAR) reported DPU of 7.441 S cents for 2H23 (-6.1% yoy), which is slightly below our expectations.
- **Growth via acquisitions and higher occupancies.** Gross revenue grew 11.0% yoy in 2H23 due to the acquisition of three Singapore properties, namely 622 Toa Payoh Lorong 1, 1 Buroh Lane and The Shugart in Jan 23, Feb 23 and May 23 respectively, acquisition of The Chess Building in Watford, UK during Aug 23 and higher occupancies in several existing properties. NPI increased 4.6% yoy despite higher utility expenses and property taxes in Singapore. Finance costs increased 26.5% yoy.
- **Strong rental reversion from multiple drivers.** CLAR achieved positive rental reversion of 15.2% in 4Q23, driven by Singapore (16.9%), Australia (21.8%) and the US (11.0%). Logistics properties in Singapore and Australia recorded strong positive reversions of 53.6% and 9.1% respectively. Business space properties in Singapore, Australia and the US recorded positive reversions of 13.1%, 22.3% and 11.0% respectively.
- **Lower occupancy in the US.** Portfolio occupancy eased 0.3ppt qoq to 94.2% in 4Q23. Occupancy for the US slipped 1.7ppt qoq to 90.4% due to downsizing by Nike in Portland.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,353	1,480	1,531	1,565	1,600
EBITDA	868	920	939	963	986
Operating profit	868	920	939	963	986
Net profit (rep./act.)	760	167	636	663	683
Net profit (adj.)	596	671	636	663	683
EPU (S\$ cent)	14.2	15.6	14.5	15.0	15.5
DPU (S\$ cent)	15.8	15.2	15.2	15.7	16.2
PE (x)	20.2	18.4	19.9	19.1	18.5
P/B (x)	1.2	1.3	1.3	1.3	1.3
DPU Yld (%)	5.5	5.3	5.3	5.5	5.6
Net margin (%)	56.2	11.3	41.5	42.3	42.7
Net debt/(cash) to equity (%)	57.7	61.6	58.6	59.2	59.7
Interest cover (x)	4.6	3.6	3.4	3.5	3.6
ROE (%)	7.4	1.6	6.2	6.5	6.7
Consensus DPU (S\$ cent)	n.a.	n.a.	15.6	16.2	17.7
UOBKH/Consensus (x)	-	-	0.97	0.97	0.91

Source: CapitaLand Ascendas REIT, Bloomberg, UOB KayHian

BUY

(Maintained)

Share Price	S\$2.87
Target Price	S\$3.62
Upside	+26.1%
(Previous TP)	S\$3.50

COMPANY DESCRIPTION

CLAR invests in business & science park, life sciences, suburban office, high-specification industrial, data centres, light industrial and logistics & distribution properties. Its portfolio stands at S\$16.9b as of Dec 23, comprising 232 properties located across Singapore, Australia, Europe, UK and the US.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CLAR SP
Shares issued (m):	4,393.6
Market cap (S\$m):	12,609.7
Market cap (US\$m):	9,444.0
3-mth avg daily t'over (US\$m):	28.5

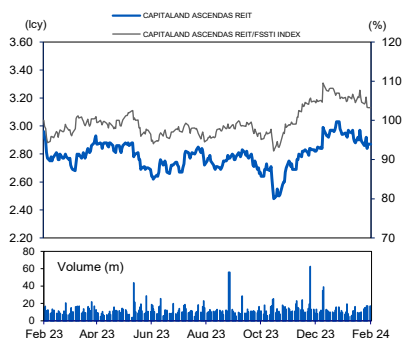
Price Performance (%)

52-week high/low	S\$3.03/S\$2.48			
1mth	3mth	6mth	1yr	YTD
(3.7)	7.5	1.8	(2.4)	(5.3)

Major Shareholders

Temasek Hldgs	19.0
FY24 NAV/Share (S\$)	2.25
FY24 Net Debt/Share (S\$)	1.36

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Continued rejuvenation through asset recycling.** CLAR completed three acquisitions in Singapore (622 Toa Payoh Lorong 1, 1 Buroh Lane and The Shugart) and one in the UK (The Chess Building in Watford) in 2023 for S\$724.3m. It completed a development project in Australia (MQX4) for S\$161.0m. It also divested KA Place, a high-specification industrial building in Singapore, for S\$35.4m, a 55% premium to its valuation.
- NAV per unit declined 4.6% yoy S\$2.26.** CLAR suffered valuation losses of S\$466m for the US (-18.5%) and S\$102m for Australia (-4.5%). This was partially offset by valuation increases of S\$239m for Singapore (+2.4%) and S\$41m for the UK/Europe (+2.7%). Overall, CLAR's portfolio valuation declined by 1.8% on a same-store basis.
- Prudent capital management.** Aggregate leverage increased slightly by 1.6ppt qoq 37.9% as of Dec 23 due to the valuation losses. 79% of CLAR's borrowings are on fixed interest rates or hedged to fixed rates. Its weighted average all-in cost of borrowing increased from 2.5% in 2022 to 3.5% in 2023. Its average debt maturity is healthy at 3.4 years.

STOCK IMPACT

- Plotting steady growth from diversified portfolio.** Management guided for mid-single digit rental reversion for 2024. Management will scout for opportunities to optimise returns through repositioning, upgrading and meeting green rating requirements in Singapore. In Australia, logistics leases account for 93.8% of leases expiring in 2024. Management expects positive reversion due to the low vacancy rate for logistics properties across Australia. The UK/Europe portfolio is expected to be resilient due to a long WALE of 5.7 years.
- CLAR plans to expand in new economy assets.** Many companies are building up their logistics capabilities to build resilience in their supply chains. The logistics industry is facing a structural change from just-in-time to just-in-case in supply chain management. CLAR focuses on last-mile infill location near population centres where supply is limited. Digitalisation of the economy will also lead to greater demand for business space and data centres.

EARNINGS REVISION/RISK

- We trim our 2024 DPU forecast by 2% due to narrower NPI margin.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$3.62 is based on DDM (cost of equity: 7.0%, terminal growth: 2.5%).

SHARE PRICE CATALYST

- Resiliency and growth from business parks, hi-tech buildings, life sciences, logistics and data centre segments.
- Contributions from development projects and AELs.

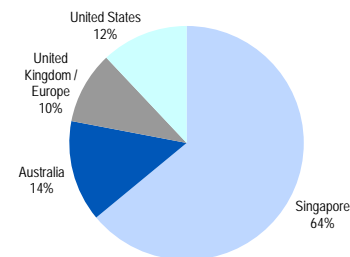
KEY OPERATING METRICS - CLAR

Year to 31 Dec	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	7.93	n.a.	7.72	n.a.	7.44	-6.1%	-3.6%
Occupancy	94.6%	94.4%	94.4%	94.5%	94.2%	-0.4ppt	-0.3ppt
Aggregate Leverage	36.6%	38.2%	36.7%	37.2%	37.9%	1.3ppt	0.7ppt
Average Cost of Debt	2.5%	3.3%	3.30%	3.30%	3.50%	1ppt	0.2ppt
% Borrowing in Fixed Rates	79.4%	77.0%	81.5%	80.6%	79.1%	-0.3ppt	-1.5ppt
WALE by NLA (years)	3.8	3.8	3.9	3.9	3.9	0.1yrs	0yrs
Weighted Debt Maturity (years)	3.7	3.2	3.3	3.3	3.4	-0.3yrs	0.1yrs
Rental Reversion	8.0%	11.1%	14.2%	10.2%	13.4%	5.4ppt	3.2ppt

* hoh % chg for DPU

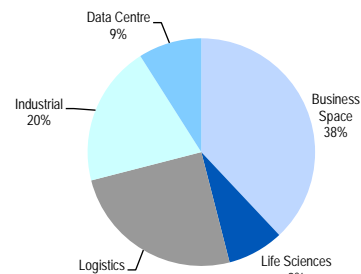
Source: CLAR, UOB Kay Hian

PORTFOLIO VALUATION BY GEOGRAPHICAL REGION



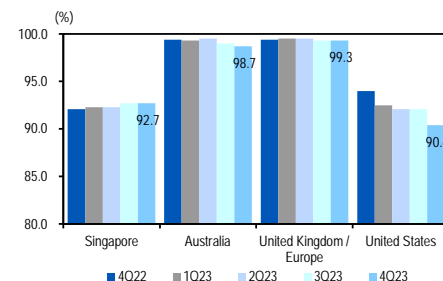
Source: CLAR

PORTFOLIO VALUATION BY ASSET CLASS



Source: CLAR

PORTFOLIO OCCUPANCY



Source: CLAR

POSITIVE RENTAL REVERSIONS

% Change in Renewal Rates	4Q22	1Q23	2023	3Q23	4Q23
SINGAPORE	6.0%	11.2%	19.5%	9.8%	16.9%
- Business Space & Life Science	1.8%	11.5%	17.9%	6.4%	13.1%
- Logistics	13.1%	23.6%	39.1%	25.5%	53.6%
- Industrial & Data Centres	3.7%	6.4%	9.7%	8.6%	9.4%
AUSTRALIA	n.a.	14.3%	12.9%	n.a.	21.8%
- Business Space	n.a.	18.1%	12.9%	n.a.	22.3%
- Logistics	n.a.	2.0%	n.a.	n.a.	9.1%
UNITED STATES	39.0%	11.3%	11.0%	8.5%	11.0%
- Business Space	30.9%	11.3%	9.5%	8.5%	11.0%
- Logistics	42.6%	n.a.	11.3%	n.a.	n.a.
UNITED KINGDOM / EUROPE	n.a.	0.0%	n.a.	28.8%	-6.6%
- Data Centres	n.a.	0.0%	n.a.	n.a.	-6.6%
- Logistics	n.a.	n.a.	n.a.	28.8%	n.a.
Total Portfolio	8.0%	11.1%	18.0%	10.2%	15.2%

Source: CLAR

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	1,479.8	1,531.1	1,565.3	1,599.6
EBITDA	920.4	939.5	962.6	985.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	920.4	939.5	962.6	985.7
Associate contributions	0.5	0.0	0.0	0.0
Net interest income/(expense)	(256.7)	(277.1)	(272.3)	(274.1)
Pre-tax profit	160.3	662.4	690.3	711.6
Tax	6.3	(26.5)	(27.6)	(28.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	166.6	635.9	662.6	683.1
Net profit (adj.)	670.5	635.9	662.6	683.1

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	16,949.1	16,979.1	17,009.1	17,039.1
Other LT assets	943.5	901.5	873.4	845.3
Cash/ST investment	221.6	259.2	268.5	267.8
Other current assets	155.6	132.4	135.3	138.1
Total assets	18,269.8	18,272.1	18,286.2	18,290.3
ST debt	1,053.5	1,053.5	1,053.5	1,053.5
Other current liabilities	549.8	775.3	791.5	807.6
LT debt	5,467.3	5,173.5	5,223.5	5,263.5
Other LT liabilities	978.9	1,080.7	1,059.9	1,039.0
Shareholders' equity	10,220.3	10,189.1	10,157.9	10,126.6
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	18,269.8	18,272.1	18,286.2	18,290.3

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	956.3	1,307.2	957.0	979.3
Pre-tax profit	664.2	662.4	690.3	711.6
Working capital changes	103.4	315.1	19.4	19.4
Non-cash items	17.4	16.9	17.0	17.0
Other operating cashflows	171.3	312.7	230.4	231.3
Investing	(925.7)	(60.0)	(60.0)	(60.0)
Capex (growth)	(751.7)	0.0	0.0	0.0
Capex (maintenance)	(171.2)	(60.0)	(60.0)	(60.0)
Proceeds from sale of assets	34.7	0.0	0.0	0.0
Others	(37.5)	0.0	0.0	0.0
Financing	(28.2)	(1,209.6)	(887.7)	(920.0)
Distribution to unitholders	(660.6)	(667.1)	(693.9)	(714.4)
Issue of shares	500.0	0.0	0.0	0.0
Proceeds from borrowings	401.6	0.0	50.0	40.0
Loan repayment	0.0	(293.9)	0.0	0.0
Others/interest paid	(269.2)	(248.6)	(243.8)	(245.6)
Net cash inflow (outflow)	2.4	37.6	9.3	(0.7)
Beginning cash & cash equivalent	217.0	221.6	259.2	268.5
Changes due to forex impact	2.2	0.0	0.0	0.0
Ending cash & cash equivalent	221.6	259.2	268.5	267.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	62.2	61.4	61.5	61.6
Pre-tax margin	10.8	43.3	44.1	44.5
Net margin	11.3	41.5	42.3	42.7
ROA	0.9	3.5	3.6	3.7
ROE	1.6	6.2	6.5	6.7
Growth				
Turnover	9.4	3.5	2.2	2.2
EBITDA	6.0	2.1	2.5	2.4
Pre-tax profit	(81.0)	313.2	4.2	3.1
Net profit	(78.1)	281.6	4.2	3.1
Net profit (adj.)	12.5	(5.2)	4.2	3.1
EPU	9.9	(7.3)	4.0	2.9
Leverage				
Debt to total capital	39.0	37.9	38.2	38.4
Debt to equity	63.8	61.1	61.8	62.4
Net debt/(cash) to equity	61.6	58.6	59.2	59.7
Interest cover (x)	3.6	3.4	3.5	3.6

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