

Cromwell European REIT

Asset rejuvenation strategy to drive organic growth



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- Resilient portfolio in terms of portfolio occupancy (FY23: 94.3%) and rent reversions (FY23: +5.7%). Occupancy is expected to remain stable this year, with only 13.5% of portfolio leases due for renewal.
- CERT's long-term 60:40 target asset class split between light industrial / logistics and well-located Grade A offices stands to benefit from the growth in e-commerce and the nearshoring trend, as well as flight to quality.
- Divested €237mn at a 14.6% premium. Another €170mn of assets remaining that are earmarked for sale. The loss of income from divestments and redevelopments is a near-term softness but will keep gearing at their target range of 35-40%. We initiate coverage with a BUY recommendation on Cromwell European REIT with a DDM-derived target price of €1.91. The FY24e forward dividend yield is 10% based on the current share price. CERT is trading at a P/NAV of 0.65x.

Company Background

Cromwell European REIT (CERT) was listed on the SGX in Nov 2017. Its €2.3bn portfolio comprises 110 predominantly freehold properties in or close to major gateway cities in the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, Slovakia, the Czech Republic, and the UK, with an aggregate lettable area of c.1.8mn sq m and over 800 tenant-customers. CERT's portfolio consists predominantly of light industrial/logistics (53%) and office (45%) assets. It is managed by Cromwell EREIT Management Pte. Ltd., a wholly owned subsidiary of CERT's sponsor, Cromwell Property Group, a real estate investor and manager with operations in 14 countries and is listed on the ASX.

Key Investment Merits

- Resilient portfolio with high occupancy and rent reversions.** As at Dec 23, portfolio occupancy remained high at 94.3% (Dec 22: 96%) despite the challenging economic environment. Portfolio occupancy is expected to remain stable in 2024, with only 13.5% of leases due for renewal. CERT observed its sixth consecutive half of positive rent reversions, with FY23 reversions coming in at 5.7%. This was due to positive reversions from both the light industrial/logistics (FY23: 3.7%) and office (FY23: 7.5%) segments.
- Divestments to keep capital management in check.** Since FY22, CERT has made eight divestments for €237mn at a blended 14.6% premium to the most recent valuation - of which three were divested in FY23 for €196.5mn at a blended 13.6% premium. CERT has €170mn of assets remaining that are earmarked for sale, with most coming from the weaker Polish and Finnish office assets. The proceeds from the divestments could either be used to pay off debt to lower interest costs and keep gearing within the management target range of 35-40% or to recycle capital into accretive redevelopments of some of CERIT's trophy projects. The successful divestments in the weaker Polish and Finnish office assets would also bring CERT closer to its long-term 60% light industrial/logistics target weightage to capitalize on the growth of e-commerce and nearshoring.
- CPI-indexed rental escalations.** Most of CERT's leases contain annual rental escalation clauses that are based on 100% of the YoY increase in CPI except for leases in Italy, where it is based on 75% of the YoY increase in CPI. This will help CERT tide through difficult periods of high inflation.

We initiate coverage on Cromwell European REIT with a BUY rating and a DDM-derived target price of €1.91, based on a COE of 10.2% and a terminal growth rate of 2%. We forecast a DPU of 13.76 cents for FY24e, translating into a forward yield of 10%.

BUY (INITIATION)

LAST CLOSE PRICE	EUR 1.38
FORECAST DIV	EUR 0.14
TARGET PRICE	EUR 1.91
TOTAL RETURN	48.3%

COMPANY DATA

BLOOMBERG CODE:	CERT SP
O/S SHARES (MN) :	562
MARKET CAP (€ mn / SGD mn) :	837 / 776
52 - WK HI/LO (SGD) :	1.63 / 1.12
3M Average Daily T/O (mn) :	0.47

MAJOR SHAREHOLDERS (%)

CROMWELL SINGAPORE HOLDINGS PTE	27.4%
HILLSBORO CAPITAL LTD	7.3%
BLACKROCK INC	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.2	2.9	2.9
STTF RETURN	2.5	(0.2)	(0.2)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	222.1	216.5	211.0	216.2
NPI	136.8	134.3	126.9	130.1
Dist. Inc.	96.7	88.3	77.4	85.3
P/NAV (x)	0.57	0.65	0.66	0.66
DPU (US cents)	17.19	15.69	13.76	15.17
Dist. Yield (%)	12.46	11.37	9.97	11.00

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 10.2%; Terminal g: 2%)

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Background

Cromwell European REIT (CERT) was listed on the SGX in Nov 2017. It has a principal mandate to invest, directly or indirectly, in income-producing real estate assets across Europe that are used primarily for light industrial/ logistics and office purposes. Its €2.3bn portfolio comprises 110 predominantly freehold properties in or close to major gateway cities in the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, Slovakia, the Czech Republic, and the UK, with an aggregate lettable area of c.1.8mn sq m and over 800 tenant-customers. CERT's portfolio consists predominantly of light industrial/logistics (53%) and office (45%) assets. It is managed by Cromwell EREIT Management Pte. Ltd., a wholly owned subsidiary of CERT's sponsor, Cromwell Property Group, a real estate investor and manager with operations in 14 countries and is listed on the ASX.

Figure 1: CERT's portfolio by country and asset type, as at Dec 23

	No. of properties	Lettable Area (sqm)	Valuation (€'000)	Valuation (%)
Light Industrial / Logistics				
Netherlands	7	70,040	102,800	4.6%
France	17	231,792	388,065	17.2%
Italy	5	309,059	154,100	6.8%
Germany	14	229,560	204,580	9.1%
Denmark	12	152,433	128,304	5.7%
Czech Republic	7	73,840	77,410	3.4%
Slovakia	5	90,147	70,840	3.1%
United Kingdom	3	65,494	60,905	2.7%
Total	70	1,222,364	1,187,004	52.7%
Office				
Netherlands	7	177,904	513,800	22.8%
France	3	34,320	55,930	2.5%
Italy	10	122,842	197,330	8.8%
Finland	10	55,179	70,600	3.1%
Poland	6	111,258	181,750	8.1%
Total	36	501,503	1,019,410	45.3%
Others				
Italy	4	53,314	45,700	2.0%
Total Portfolio	110	1,777,181	2,252,114	100.0%

Source: Company, PSR

Top 10 assets

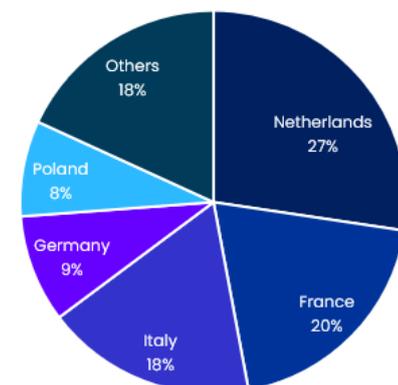
As at Dec 23, CERT's top 10 assets accounted for 38.5% of assets under management (AUM). Six of these assets are in the Netherlands, accounting for 23.3% of AUM.

Figure 3: Top 10 assets account for 38.5% of (AUM)

Country	Property Name	Asset Type	NLA sqm	Occupancy by NLA (%)	% of AUM (as at 31 Dec 2023)	Carrying Value (EURm, as at 31 Dec 2023)	Reversionary Yield as at 31 Dec 2023
France	Parc des Docks - St Ouen sur Seine	Light Industrial / Logistics	73,372	91.3%	7.3%	164.45	7.0%
Netherlands	Haagse Poort - Den Haag	Office	68,502	98.9%	7.2%	163.20	6.8%
Netherlands	Plaza - ROTTERDAM	Office	33,263	94.3%	6.3%	140.80	5.8%
Poland	Business Garden Poznan - Poznan	Office	42,268	94.3%	3.2%	72.90	10.3%
Netherlands	Bastion - DEN BOSCH	Office	31,979	95.1%	3.0%	67.20	6.9%
Italy	CLOM - Monteprandone	Light Industrial / Logistics	151,298	98.3%	2.6%	57.50	9.8%
Netherlands	MT Laan - UTRECHT	Office	21,922	100.0%	2.5%	56.30	6.5%
Netherlands	Ruyterkade - AMSTERDAM	Office	8,741	100.0%	2.2%	50.40	5.3%
Italy	Nervesa - Milano	Office	9,837	-	2.1%	47.30	7.2%
Netherlands	Veemarkt - Amsterdam	Light Industrial / Logistics	21,957	99.2%	2.1%	47.10	5.9%
Total			463,140	94.5%	38.5%	867.15	7.0%

Source: Company, PSR

Figure 2: AUM breakdown by country (as at Dec 23)



Source: Company, PSR

Top 10 tenants

As at Dec 23, CERT had 837 tenants within its portfolio with a WALE of 4.7 years. Its tenants are well diversified in terms of industry trade sectors, with no single trade sector representing more than 17% of the portfolio. Most of its tenants are government agencies, large MNCs, or domestic corporations.

CERT has reduced its tenant concentration risk - its top 10 tenants now only account for 23.2% of its rent revenue, down from 28.5% as of Dec 22.

Figure 4: Top 10 tenant-customers

Tenant-customer	Country	% of Total Headline Rent
Nationale Nederlanden Nederland B.V.	Netherlands	4.4%
Agenzia Del Demanio	Italy	3.2%
Essent Nederland B.V.	Netherlands	2.8%
Employee Insurance Agency (U.WV)	Netherlands	2.2%
Kamer van Koophandel	Netherlands	2.0%
Motorola Solutions	Netherlands	2.0%
Holland Casino	Netherlands	1.9%
Thorn Lighting	United Kingdom	1.7%
Felss Group	Germany	1.5%
Coolblue B.V.	Netherlands	1.5%
Total		23.2%

Source: Company, PSR

The Sponsor

CERT's sponsor is Cromwell Property Group, an ASX-listed real estate investor and fund manager with an AUM of A\$11.4bn across Australia, Europe, and New Zealand. It owns a 28% stake in CERT.

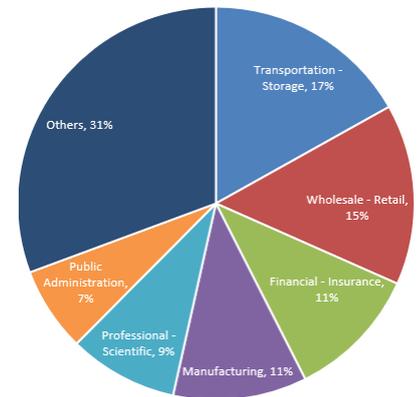
Investment Merits

Resilient portfolio occupancy with high rent reversions

As at Dec 23, portfolio occupancy remained resilient at 94.3% (Dec 22: 96%) despite the challenging economic environment. The dip in portfolio occupancy was due to the light industrial/logistics segment, where occupancy fell from 98.1% to 95.6% YoY. The office segment saw a YoY improvement in occupancy from 89.3% to 90.3%. Portfolio occupancy is expected to remain stable this year, with only 13.5% of portfolio leases due for renewal.

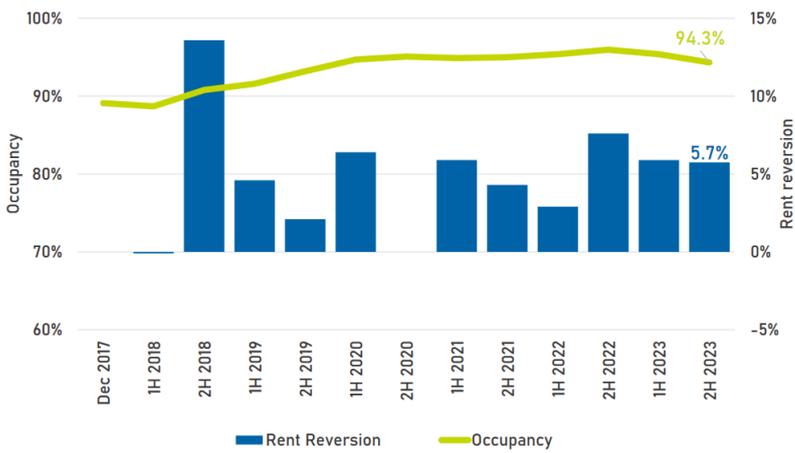
CERT observed its sixth consecutive half of positive rent reversions, with FY23 reversions coming in at 5.7%. This was due to strong reversions from the office segment (FY23: +7.5%), while the light industrial/logistics segment had reversions of +3.7% in FY23.

Figure 5: Tenant-customers by trade industry sector



Source: Company, PSR

Figure 6: Portfolio occupancy and rent reversions trend



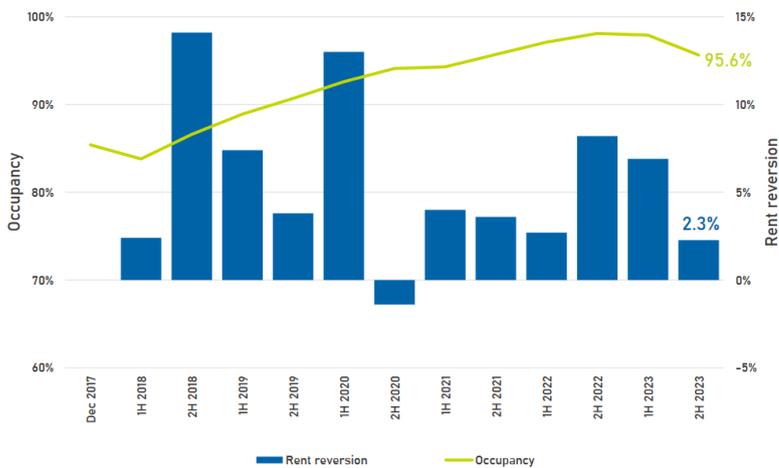
Source: Company

Light industrial/logistics occupancy remained high with positive rent reversions

CERT’s light industrial/logistics occupancy remained high at 95.6% as at Dec 23, dipping from 98.1% YoY. The decline in occupancy was attributable to the newly completed developments in the Czech Republic (Lovosice ONE Industrial Park I), and Slovakia (Nove Mesto ONE Industrial Park I / III), coupled with the recent vacancies in the Denmark assets. The new developments in the Czech Republic and Slovakia are expected to be fully leased in 1H24, while the vacancies in Denmark are expected to be leased back up soon. The light industrial/logistics portfolio recorded its sixth consecutive half of positive rent reversions, with 2H23/FY23 reversions at +2.3/3.7%.

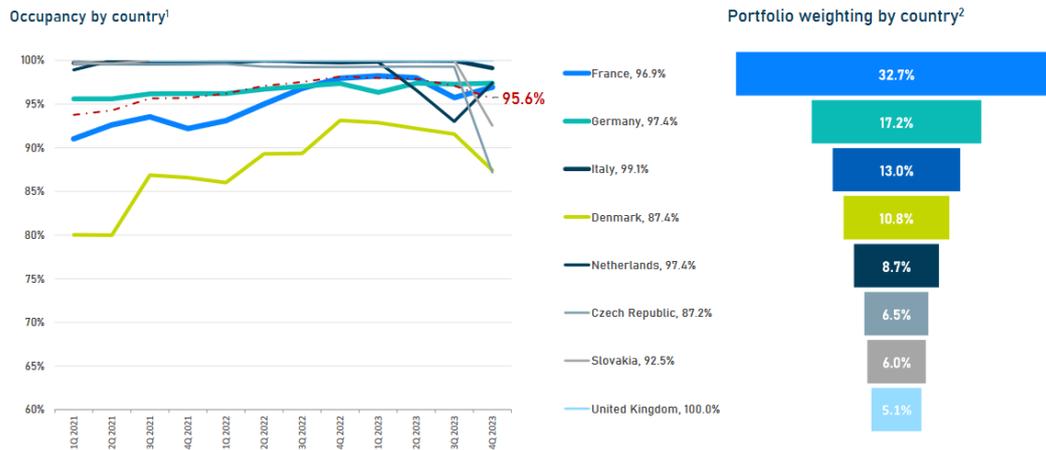
Occupier demand in 2024 is likely to be driven by the continued growth of e-commerce and nearshoring. Vacancy rates remain close to record lows at 2.9% across CERT’s eight logistics markets.

Figure 7: Light industrial/logistics occupancy and rent reversions trend



Source: Company

Figure 8: Light industrial/logistics occupancy and portfolio weighting by country



Source: Company

Figure 9: Six-month take-up and average vacancy rates across CERT's logistics markets



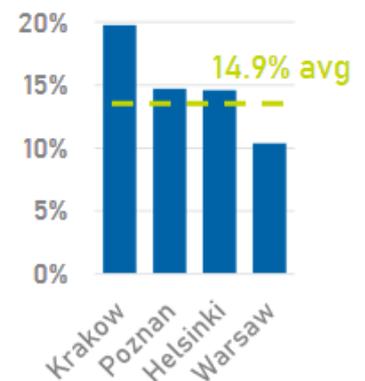
Source: Company

Improvements in office occupancy coupled with high rent reversions

CERT's office occupancy improved from 89.3% to 90.3% YoY as of Dec 23, with 7.5% positive rent reversion for FY23 driven by major Grade A office lease renewals in the Netherlands and Italy. Occupancy for CERT's core Dutch and Italian markets, which accounted for 70% of its office portfolio, stood at 97.2% and 92.8%, respectively, as of Dec 23. Grade A office vacancies in these two core markets stayed tight at 3.2% versus 9.3% on average for all office grades.

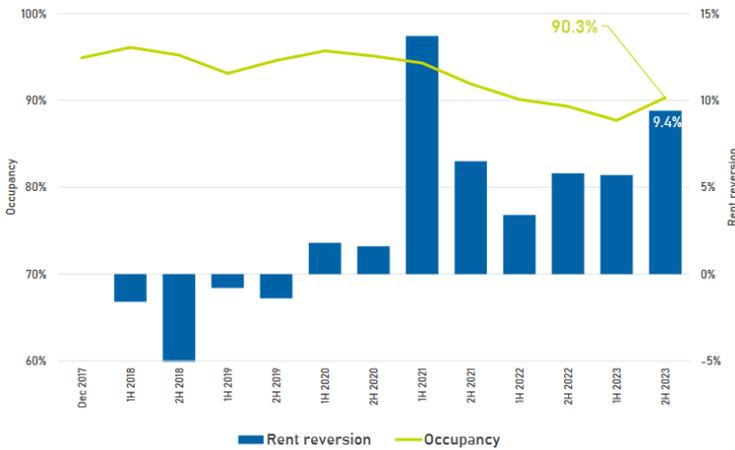
Despite the declining occupancy trend since 1H20, CERT managed to record eight consecutive halves of positive rent reversion. Demand for office space is focused mainly on high-quality Grade A assets in core locations as Grade A office demand continues to widen the gap to Grade B/C offices. As a result, the vacancy rate for CERT's Grade A Dutch and Milan office markets is much lower at 3.2%, with vacancies in CERT's non-strategic office markets in Finland and Poland at 14.9%.

Figure 10: 4Q23 vacancy in CERT's weaker Polish and Finnish office markets



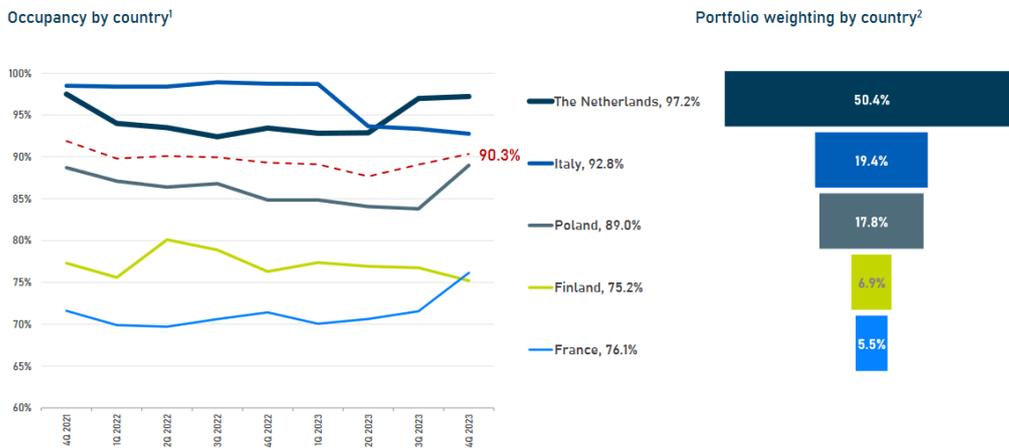
Source: Company

Figure 11: Office occupancy and rent reversions trend



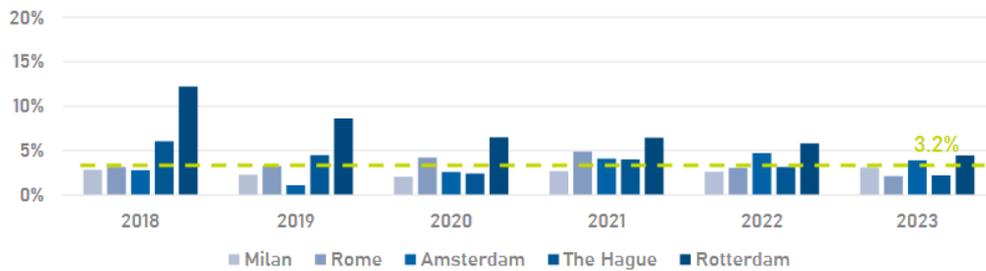
Source: Company

Figure 12: CERT's key office markets in the Netherlands and Italy had above 92% occupancy



Source: Company

Figure 13: Grade A office vacancy in CERT's key markets



Source: Company

Rental escalations from inflation indexation

European leases have rental escalations based on inflation indices in the countries where the assets are located. Most of CERT's leases contain annual rental escalation clauses based on 100% of the YoY increase in CPI, except for leases in Italy, where it is based on 75% of the YoY increase in CPI. In FY23, rental growth based on CPI indexation for most of CERT's c.1000 leases was 4.3%.

Figure 14: Rental indexation in CERT's countries of operations

Country	Type of inflation indicators	Rental uplift degree	How is the inflation kicker being calculated?
United Kingdom	CPI / RPI	100% (unless there is a cap disclosed in the rental agreement)	CPI increase on annual basis, rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
Germany	CPI Monthly Index	100% (unless there is a hurdle/cap disclosed in the rental agreement, e.g. 10% CPI change @80% cap)	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to previous year rate in the same month
France	ILAT (c. 80% of the portfolio) ICC (construction index)	100%	Base index is the latest one published at the time of the lease signature and it's compared against the same trimester each following year
Italy	CPI Monthly Index	Generally 75% for all rents (rarely contracts have it at 100%)	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to previous year rate in the same month
The Netherlands	CPI Monthly Index	100% (unless there is a cap disclosed in the rental agreement)	Rent inflation kicker is based on the index rate as per a certain month (anniversary date) compared to previous year rate, 4 month prior the actual index month as per rental agreement.
Poland	HICP / CPI (Polish GUS) ³	100% (unless there is a cap disclosed in the rental agreement)	Rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
Denmark	CPI / NPI	100%	CPI increase on annual basis, rent inflation kicker is based on the Index Rate as per a certain month compared to previous year rate in the same month
The Czech Republic	HICP	100% (unless there is a cap disclosed in the rental agreement)	HICP increase on annual basis
Finland	CPI Monthly Index	100%	CPI increase on annual basis, rent inflation kicker is based on the index rate as per a certain month compared to base year rate (year 1951)
Slovakia	HICP	100% (unless there is a cap disclosed in the rental agreement)	HICP increase on annual basis

Source: Company, PSR

Organic growth through redevelopments and AEs to rejuvenate and future-proof the portfolio

The redevelopment of Nervesa 21 to a LEED platinum Grade A office was completed in Jan 24, with 70% of the property handed over to Universal Music Group and two other communications and tech tenants. The remaining 30% is expected to be leased up in 2Q24. The rental uplift for this project is expected to be 40-50%. The Lovosice ONE refurbishment and development, and the Nove Mesto ONE development of two new warehouse units DC3 and DC7, have also been completed. c.46% of space at the former has been committed, while DC3 is fully committed and DC7 is c.50% committed. Advanced negotiations are underway to lease out the remaining 3,000 sqm at DC7. The abovementioned three projects in Milan, Italy, the Czech Republic, and Slovakia were delivered on time and budget.

Moving forward, CERT has a €200mn development pipeline, with four major assets up for redevelopment or extensive refurbishment. They include Haagse Port, Maxima, De Ruyterkade 5, and Parc des Docks. CERT has ample liquidity to finance the developments, with over €70 million in cash and an undrawn €200 million revolving credit facility.

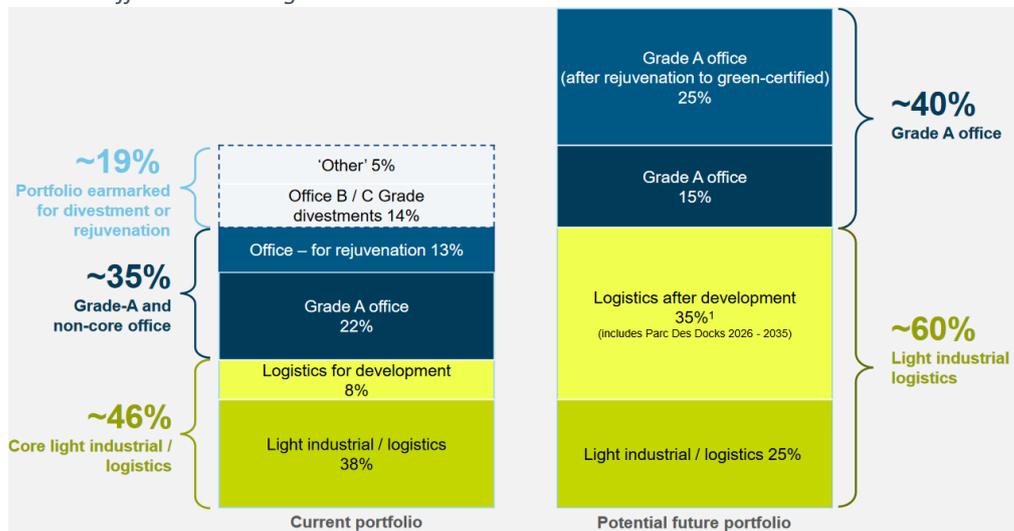
Divestments

Since FY22, CERT has made eight divestments for €237mn at a blended 14.6% premium to the most recent valuation - of which three were divested in FY23 for €196.5mn at a blended 13.6% premium to the most recent valuation. CERT has €170mn of assets remaining that are earmarked for sale, with most coming from the weaker Polish and Finnish office assets. The proceeds from the divestments could either be used to pay off debt to keep gearing within the management target range of 35-40% or to recycle capital into accretive redevelopments of some of CERT's trophy projects. As of Dec 23, CERT has €31.1 million of realized capital gains, including a €3.1 million gain from the €50 million bond buyback.

Pivoting to logistics

The successful divestments in the weaker Polish and Finnish office assets will help to bring CERT closer to its long-term 60:40 target asset class split between light industrial / logistics and well-located Grade A offices. Light industrial/logistics now accounts for 53% (Dec22: 46%) of the total portfolio, while office accounts for 45% (Dec 22: 49%).

Figure 15: Targeting 60:40 asset class split between light industrial/logistics and well-located Grade A offices in the long-term



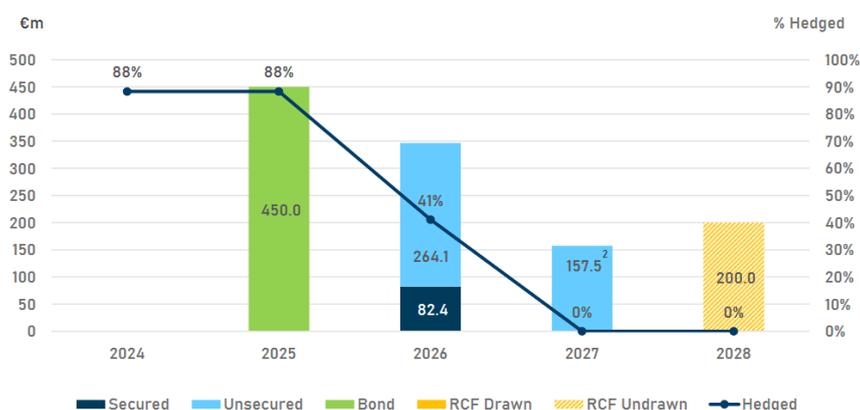
Source: Company

Proactive capital management

CERT has no debt due for refinancing in FY24. The €450mn debt maturing in FY25 (47% of total debt) is the €500mn 2.125% coupon bonds issued in 2020. €50mn of these bonds were bought back and cancelled in Dec 23, resulting in a €3.1mn capital gain. Management indicated that the bond refinancing is a key focus for 2024. Additionally, CERT maintains a high interest rate hedge ratio of 88% of total loans.

The all-in interest rate was 3.19% as of Dec 23. We expect borrowing costs to remain stable for the rest of the year, given that ECB rates have peaked and could even decrease during the year. Moreover, the proceeds generated from divesting the remaining €170mn worth of assets in the divestment programme could be allocated towards debt repayment, thereby facilitating a further reduction in interest costs. Management is also targeting to keep aggregate leverage between 35-40% - it is 40.3% as at Dec 23.

Figure 16: Debt maturity profile and percentage hedged as at 31 Dec 23



Source: Company

Resilient portfolio valuations

CERT's total portfolio valuation stood at €2.3 billion as of Dec 23, registering only a modest 1.5% decline compared to 30 June 2023. It is down 3% YoY. Light industrial/logistics valuations were up 1.4% (€1.2 billion), while office valuations declined 4.6% (€1.0 billion) in Dec 23 compared to Jun 23. The light industrial/logistics sector saw uplifts in valuations in six out of eight markets. It was supported by the valuer's average reversionary yield of 7.0% compared to the higher 8.3% for the office sector, further validating the Manager's strategy to rebalance the portfolio towards the light industrial/logistics sector, which now accounts for 53% of CERT's portfolio as at 31 December 2023. The decline in office valuations was due to the weaker office markets in Poland and Finland.

Expenses

CERT's property operating expense comprises service charge expenses, non-recoverable expenses, and allowance for doubtful debts. Service charge expenses are generally offset and recoverable by service charge income collected from tenants, including insurance, utility provisions, land tax, and maintenance and service of common equipment and common areas. Its service charge expenses may exceed service charge income due to vacancies within its properties.

Its non-recoverable expenses include property insurance, maintenance and repairs, marketing, property taxes, leasing, and property management fees. Its leasing costs include payments to third-party brokers and/or the property manager.

For FY23, CERT's service charge income from tenants covered 62% of its service charge expenses and non-recoverable expenses (FY22: 65%).

Fees

CERT pays its REIT manager, Cromwell EREIT Management Pte. Ltd., a base fee of 0.23% p.a. of the value of CERT's deposited property and a performance fee of 25% of the difference in DPU in a year compared to the preceding year. The manager may elect to be paid its base and performance fee in cash, units, or a combination of both. From FY20-23, the manager's base fee was paid in cash, and no performance fee was paid.

The property and portfolio management fee is calculated as 0.67% p.a. of the value of CERT's deposited property and is shown within property operating expenses. The property manager may elect to receive its fees in cash, units, or a combination of both. FY20-23 fees were paid in cash.

Figure 17: CERT's Fee Structure

CERT's fee structure	
Manager's base fee	0.23% of deposited property value
Performance fee	25% of the difference in DPU in a year vs the DPU in the preceding year
Trustee fee	Not exceeding 0.015% p.a. of the value of CERT's deposited property, subject to a minimum amount of \$15,000 (c.€9,500) per month
Acquisition fee	1% of gross acquisition price
Divestment fee	0.5% of gross sale price
Property and portfolio management fee	0.67% of the value of CERT's deposited property
Project management fee	5.0% of the construction costs for any refurbishment, retrofitting, addition and alteration or renovation works to the relevant property
Development management fee	3% of the total project costs incurred

Source: Company, PSR

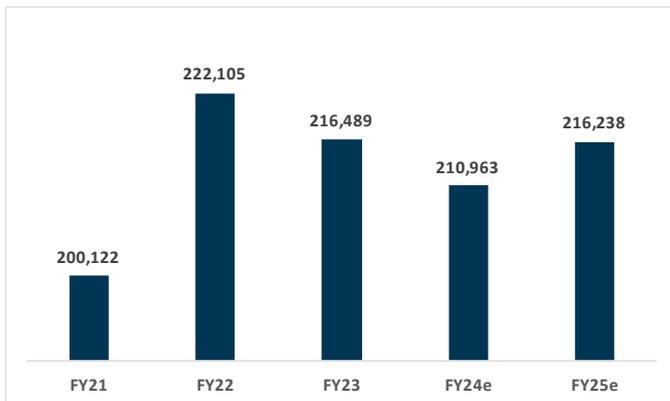
Financials

Lower topline from loss of income from divestments and redevelopments

FY23 revenue/NPI were down 2.5/1.8% due to the absence of contribution from divested assets and the Maxima redevelopment, partially offset by higher office occupancy and +5.7% rent reversion and inflation indexation. €196.5mn worth of divestments were made in 2023, and they include Piazza Affari, Milan (June 2023), Viale Europa 95, Bari (Nov 2023), and Corso Lungomare Trieste 29, Bari (Dec 2023).

We project revenue to decrease 2.6% YoY in FY24e due to the full-year absence of contribution from divested assets in 2023, partially offset by inflation-linked rental escalations and the completion of the Nervesa 21, Lovosice ONE, and Nove Mesto ONE development.

Figure 18: CERT's FY21-25e projected revenue (in €'000)

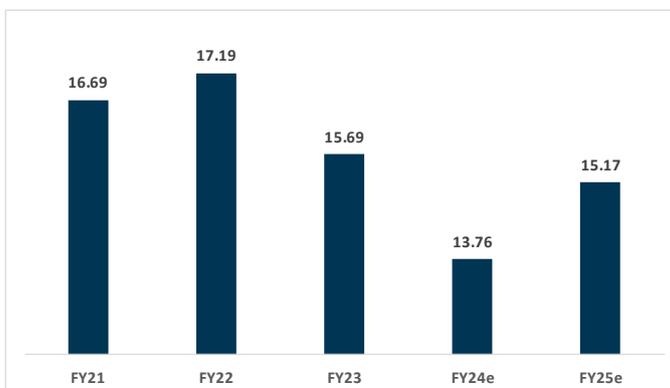


Source: Company, PSR

DPU to be impacted by divestment plans

CERT has €170mn of assets earmarked for sale over the next 1 to 2 years and will result in a further loss of income if completed. Consequently, we expect DPU to be impacted post-divestments. Following the loss of income from divestments and redevelopments, we forecast an FY24e DPU of 13.76 €cents, only to recover to 15.17 €cents in FY25e as interest rate pressures ease.

Figure 19: CERT's FY21-FY25e projected DPU (in €cents)



Source: Company, PSR

Risks

Valuation risk: We do not foresee any further material change in asset valuations as interest rates have peaked and cap rates are likely to remain stable or even compress.

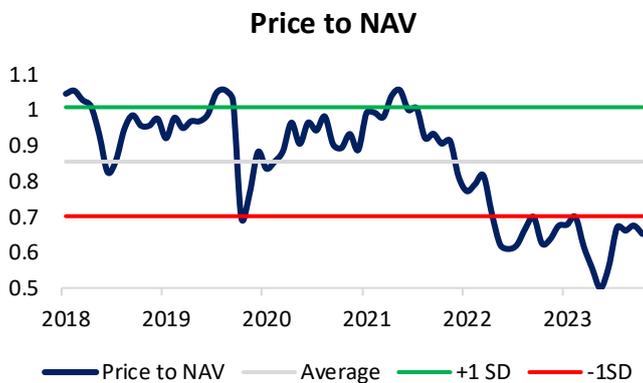
Country risk: CERT is exposed to country risks, including political changes or policy changes in the EU or the countries where it operates. An economic downturn in Europe would likely affect tenant demand and rental rates.

Foreign exchange risk: Although DPU is Euro-denominated, income from Denmark, Poland, the Czech Republic, and the UK are received in their respective currencies, and they account for 21% of FY23 NPI. CERT does not hedge the income and, as a result, is exposed to currency risks.

Valuation

We initiate coverage on Cromwell European REIT with a BUY recommendation and a price target of €1.91. Our valuation is based on DDM using a cost of equity of 10.2% and a 2% terminal growth rate. The current share price implies an FY24e dividend yield of 10%. CERT is trading at a steep discount to NAV at 0.65x.

Figure 20: Price/NAV of 0.65x is at -1.3x s.d.



Source: Company, PSR

Market Outlook

GDP in the Eurozone was flat in 4Q 2023, narrowly avoiding a recession. The Eurozone economy remains weak, with little prospect of immediate improvement and an annual GDP growth forecast in 2024 of 0.6%. Eurozone inflation has continued to fall, with the estimate for January expected to be 2.8% YoY, down from 2.9% in Dec 23. The market is now pricing in an ECB rate cut on June 24.

Logistics

The European logistics sector continued to see positive rental growth, with prime logistics rents increasing 6.3% in 2023. European logistics leasing is holding up well in the face of low economic growth in 2023 after a surge of leasing activity post-Covid in 2021/2022. Occupiers currently remain highly selective with limited new supply. The continued growth of e-commerce and onshoring manufacturers will drive occupier demand in 2024. Vacancy rates remain close to record lows at 2.9% across CEREIT’s eight logistics markets.

Office

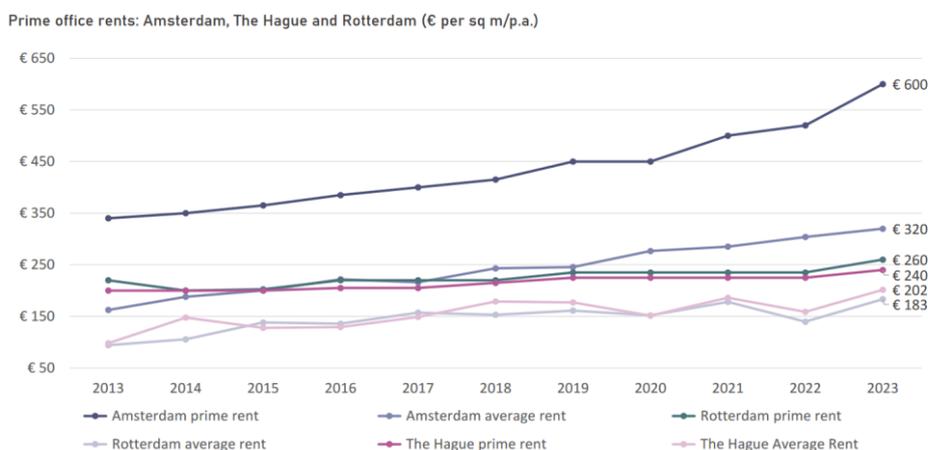
Office vacancy rates increased slightly across the Eurozone to 9.3% despite a relatively robust level of leasing activity. Space take-up increased by 10.8% during the second half of 2023, with demand focused mainly on quality office space in core locations as Grade A office demand continues to widen the gap to Grade B/C office. Employers are willing to pay a premium for higher-quality office space to incentivize their workers to return to the office. Flight to quality remains the key demand driver for office space.

Market Outlook in CERT’s key market

Netherlands: CERT’s largest market, accounting for 27% of AUM

GDP in the Netherlands declined for two successive quarters in 3Q23 and 4Q23, and low growth is anticipated for 2024. The weak GDP is due to falling industrial production, household consumption, and external demand. However, rental growth has been strong, with the occupier logistics and office market registering 11.6% and 3.7% YoY growth in 4Q23. Dutch prime office rents have risen 30% since COVID-19, and 22.8% of CERT’s total portfolio is prime office assets in the Netherlands.

Figure 21: Dutch prime office rents are up c.30% since COVID-19



Source: Company, Savillis, MSCI

Financials
Income statement

Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	200,122	222,105	216,489	210,963	216,238
Property expenses	(70,030)	(85,330)	(82,208)	(84,019)	(86,120)
Net property income	130,092	136,775	134,281	126,944	130,118
Net Finance (Expense)/Inc.	(21,736)	(24,387)	(32,380)	(34,785)	(29,408)
Manager's fees	(5,619)	(6,057)	(5,894)	(5,445)	(5,440)
Other items	23,227	55,819	(6,034)	(5,886)	(6,022)
FV change, derivatives & pptides	(1,052)	(106,450)	(148,350)	-	-
Net income before tax	124,912	55,700	(58,377)	80,828	89,248
Taxation	(28,309)	(13,751)	(15,522)	(12,124)	(13,387)
Net income after Tax	96,603	41,949	(73,899)	68,704	75,860
Distribution adjustments	(2,741)	57,039	164,479	11,029	11,801
Income available for distribution	93,618	96,667	88,254	77,408	85,336

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (€\$)	2.52	2.42	2.12	2.10	2.08
DPU (€ cents)	16.69	17.19	15.69	13.76	15.17

Cash Flow

Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	124,912	55,700	(58,377)	80,828	89,248
Adjustments	(7,871)	69,792	183,245	35,359	29,999
WC changes	3,427	(5,014)	938	838	559
Cash generated from ops	120,468	120,478	125,806	117,026	119,806
Others	(23,601)	(28,132)	(36,674)	(40,935)	(36,200)
Cashflow from ops	96,867	92,346	89,132	76,091	83,606

CFI

Acquisition of investment properti	(215,590)	(107,463)	-	-	-
Capex, net	(22,637)	(38,884)	(83,053)	(35,865)	(22,274)
Others	(210,023)	(67,458)	194,645	50,000	50,000
Cashflow from investments	(232,660)	(106,342)	111,592	14,135	27,726

CFF

Proceeds from issuance of units	97,728	(121)	(13)	-	-
Loans, net of repayments	73,043	88,163	(66,857)	-	-
Distributions	(83,197)	(93,338)	(91,580)	(77,408)	(85,336)
Others	63,884	(4,534)	(3,911)	(2,326)	(2,326)
Cashflow from financing	151,458	(9,830)	(162,361)	(79,734)	(87,662)
Net change in cash	15,665	(23,826)	38,363	10,492	23,670
Cash at the start of the period	43,593	59,258	35,432	73,795	84,287
FX changes	-	-	-	-	-
Ending cash	59,258	35,432	73,795	84,287	107,957

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

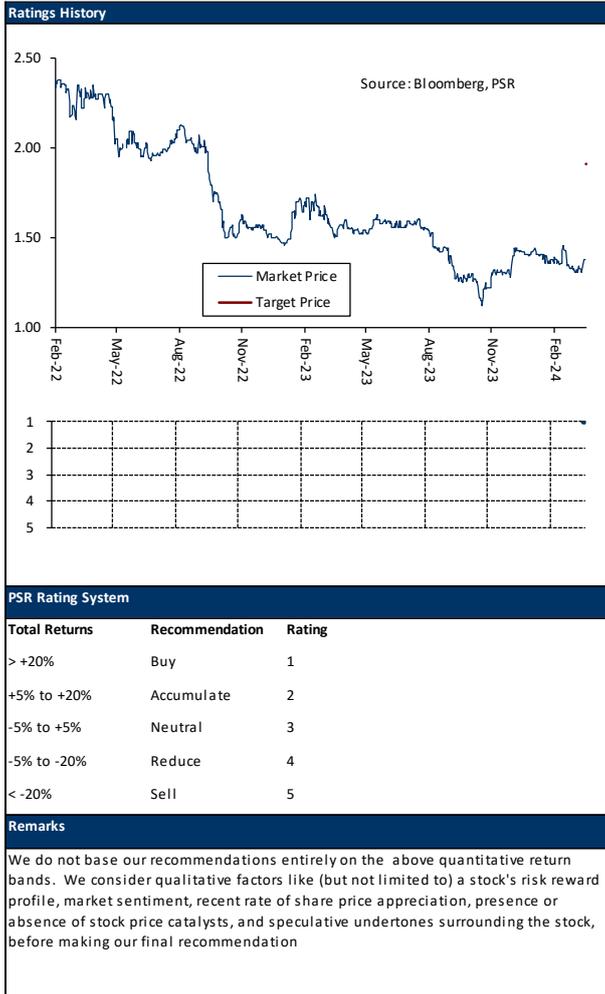
Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	2,449,014	2,509,407	2,241,570	2,227,435	2,199,709
Others	6,902	27,845	12,650	12,880	12,660
Total non-current assets	2,455,916	2,537,252	2,254,220	2,240,316	2,212,370
Trade receivables	18,491	16,340	14,450	15,554	15,200
Cash	59,258	35,432	73,795	84,287	107,957
Others	865	960	25,008	25,008	25,008
Total current assets	78,614	52,732	113,253	124,849	148,165
Total Assets	2,534,530	2,589,984	2,367,473	2,365,165	2,360,535
LIABILITIES					
Loans and borrowings	23,000	50,630	-	-	-
Trade payables	35,691	42,385	42,073	44,246	44,231
Others	55,492	86,908	40,181	40,181	40,181
Total current liabilities	91,183	129,293	82,254	84,427	84,412
Loans and borrowings	899,729	964,284	947,600	947,600	947,600
Others	66,338	73,486	82,478	88,452	95,048
Total non-current liabilities	966,067	1,037,770	1,030,078	1,036,052	1,042,648
Total Liabilities	1,057,250	1,167,063	1,112,332	1,120,479	1,127,060
Net assets	1,477,280	1,422,921	1,255,141	1,244,686	1,233,475
Represented by:					
Unitholders' funds	1,477,280	1,422,921	1,255,141	1,244,686	1,233,475

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.55	0.57	0.65	0.66	0.66
Distribution Yield (%)	12.1	12.5	11.4	10.0	11.0
NPI yield (%)	10.6	5.5	5.7	5.7	5.9

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	7.0%	11.0%	-2.5%	-2.6%	2.5%
Net property income (NPI)	10.9%	5.1%	-1.8%	-5.5%	2.5%
Distributable income	5.1%	3.3%	-8.7%	-12.3%	10.2%
DPU	0.5%	3.0%	-8.7%	-12.3%	10.2%
Margins					
NPI margin	65.0%	61.6%	62.0%	60.2%	60.2%
Key Ratios					
Net Debt or (Net Cash)	863,471	979,482	873,805	863,313	839,643
Gearing	36.4%	39.2%	40.0%	40.1%	40.1%



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