

Cromwell European REIT

Secured debt facilities to refinance bond

SINGAPORE | REAL ESTATE (REIT) | 3Q24 UPDATE

- 3Q24/9M24 DI was in line with our estimates, forming 26%/77% of our FY24e forecast. 3Q24 NPI rose 7% YoY, boosted by the completion of Nervesa21 office redevelopment in Milan, and Novo Mesto ONE Industrial Park I/III logistics development near Bratislava. 3Q24 DI was 7.8% lower YoY due to asset divestments and higher interest costs.
- Portfolio occupancy improved by 30bps QoQ to 93.9%. With the new €340mn bridge debt facility and current undrawn RCF, CERT can repay the €450mn November 2025 bond if needed but will wait to optimise timing and pricing for a new, longer-dated bond. 9M24 portfolio rental reversion was healthy at +4.3%. CERT's overall passing rents are c.7% lower than market rents, indicating potential for positive rental reversions in the future.
- Maintain BUY, with a higher DDM TP of €1.95 (previous €1.91). We nudge up both our FY24e and FY25e DPU estimates by 2% on stronger operating performance. We expect FY24e year-end portfolio valuation to remain stable. CERT's pivot towards a 60% target asset class weight in light industrial/logistics aims to capitalise on positive structural trends, such as increased e-commerce penetration and the nearshoring of supply chains. Catalysts include further ECB rate cuts to secure a low coupon rate for the new bond issuance. Despite the recent share price rally, CERT still trades at attractive FY24e/25e DPU yields of 8.7%/8.2%, and a P/NAV of 0.78x.

Results at a glance

(€\$ mn)	3Q24	3Q23	YoY	9M24	9M23	YoY	Comments
Gross revenue	53.9	53.6	0.6%	160.2	161.9	-1.1%	Excluding divestments and redevelopments, 9M24 NPI grew 4.4%. 3Q24 NPI was boosted by the completion of Nervesa21 office redevelopment and Novo Mesto ONE Industrial Park I/III logistics development.
Net property income	34.5	32.2	7.0%	100.0	100.8	-0.8%	
Distributable Income	20.8	22.5	-7.8%	60.4	66.3	-8.9%	

Source: Company, PSR

The Positives

+ Stable portfolio occupancy at 93.9% (+30bps QoQ) with healthy portfolio rental reversion (3Q24: +2.3%; 9M24: 4.3%). The occupancy of the logistics/light industrial portfolio increased 30bps to 95.1%, accompanied by a strong rent reversion of 8.8% in 3Q24. Two new leases signed in Milan and Amsterdam contributed to this, with rental reversions of 30.1% in Milan, driven by market growth and AEIs, and 44.7% in Amsterdam due to market growth. The office portfolio's occupancy increased by 20 basis points QoQ to 90.9%, with a -4.3% rent reversion in 3Q24 attributed to a single lease representing only 1.5% of the office portfolio in the weaker Polish market. This tenant renewed the lease for three years, with no space reduction and minimal incentives. CERT's portfolio is still under-rented by c.7%, compared with market rents, indicating the potential for positive rental reversions in the future.

+ Secured new credit facilities. CERT has secured a new €340mn bridge debt facility with a final maturity in 2027, intended for refinancing the November 2025 bond unless a new bond is issued before that date. The overall cost of debt improved slightly QoQ to 3.16%, with 87.6% of debt hedged to a fixed rate. Gearing rose 0.7%pts QoQ to 41% due to the drawdown of RCF to fund Capex. We expect the all-in cost of debt to remain at 3.2% in FY24e, rising to



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6 November 2024

BUY (Maintained)

LAST CLOSE PRICE	EUR 1.64
FORECAST DIV	EUR 0.14
TARGET PRICE	EUR 1.95
TOTAL RETURN	27.7%

COMPANY DATA

BLOOMBERG CODE:	CERT SP
O/S SHARES (MN) :	562
MARKET CAP (€ mn / SGD mn) :	1005 / 922
52 - WK HI/LO (SGD) :	1.68 / 1.21
3M Average Daily T/O (mn) :	0.45

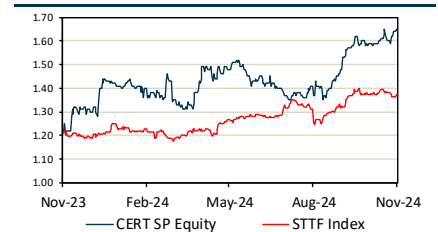
MAJOR SHAREHOLDERS (%)

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	3.8	23.1	29.5
STTF RETURN	(0.3)	7.3	15.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (€\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	222.1	216.5	214.1	219.4
NPI	136.8	134.3	130.0	133.3
Dist. Inc.	96.7	88.3	79.9	75.4
P/NAV (x)	0.68	0.77	0.78	0.79
DPU (€ cents)	17.19	15.69	14.20	13.41
Dist. Yield (%)	10.48	9.57	8.66	8.18

Source: Company, PSR

VALUATION METHOD

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

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4% in FY25e following the bond refinancing. In October 2024, Fitch Ratings revised CERT's outlook from Stable to Positive while reaffirming its BBB- rating. An upgrade to BBB could result in margin savings of 20-30bps.

+ 3Q24 NPI margin improved 380bps YoY to 63.9%. Cost savings came from lower electricity expenses and higher operating costs passed on to tenants due to improved occupancy.

The Negative

- nil

Outlook

CERT remains focused on maintaining high portfolio occupancy and rental income growth, managing the November 2025 bond maturity by issuing long-term debt at optimal pricing, and completing the remaining €70mn in non-strategic divestments to increase its portfolio weighting in the logistics/light industrial sector, which currently stands at 54%. We expect the all-in interest cost to increase to 4% in FY25e after the bond refinancing, as the current bond's coupon is only 2.125%.

Maintain BUY with a higher DDM TP of €1.95 (previous €1.91)

The current share price implies an FY24e/25e DPU yield of 8.7%/8.2% and a P/NAV of 0.78x.

Financials

Income statement

Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	200,122	222,105	216,489	214,051	219,402
Property expenses	(70,030)	(85,330)	(82,208)	(84,010)	(86,111)
Net property income	130,092	136,775	134,281	130,040	133,291
Net Finance (Expense)/Inc.	(21,736)	(24,387)	(32,380)	(35,150)	(43,246)
Manager's fees	(5,619)	(6,057)	(5,894)	(5,445)	(5,440)
Other items	23,227	55,819	(6,034)	(5,967)	(6,107)
FV change, derivatives & pptides	(1,052)	(106,450)	(148,350)	-	-
Net income before tax	124,912	55,700	(58,377)	83,477	78,499
Taxation	(28,309)	(13,751)	(15,522)	(12,522)	(11,775)
Net income after Tax	96,603	41,949	(73,899)	70,956	66,724
Distribution adjustments	(2,741)	57,039	164,479	11,225	11,008
Income available for distribution	93,618	96,667	88,254	79,855	75,406

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	14.20	13.41

Cash Flow

Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	124,912	55,700	(58,377)	83,477	78,499
Adjustments	(7,871)	69,792	183,245	35,725	43,836
WC changes	3,427	(5,014)	938	384	1,002
Cash generated from ops	120,468	120,478	125,806	119,586	123,337
Others	(23,601)	(28,132)	(36,674)	(41,502)	(49,219)
Cashflow from ops	96,867	92,346	89,132	78,084	74,118

CFI

Acquisition of investment properti	(215,590)	(107,463)	-	-	-
Capex, net	(22,637)	(38,884)	(83,053)	(35,865)	(33,412)
Others	(210,023)	(67,458)	194,645	50,000	50,000
Cashflow from investments	(232,660)	(106,342)	111,592	14,135	16,588

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)	(79,855)	(75,406)
Others	63,884	(4,534)	(3,911)	(2,326)	(2,326)
Cashflow from financing	151,458	(9,830)	(162,361)	(82,181)	(77,732)
Net change in cash	15,665	(23,826)	38,363	10,038	12,974
Cash at the start of the period	43,593	59,258	35,432	73,795	83,833
FX changes	-	-	-	-	-
Ending cash	59,258	35,432	73,795	83,833	96,807

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

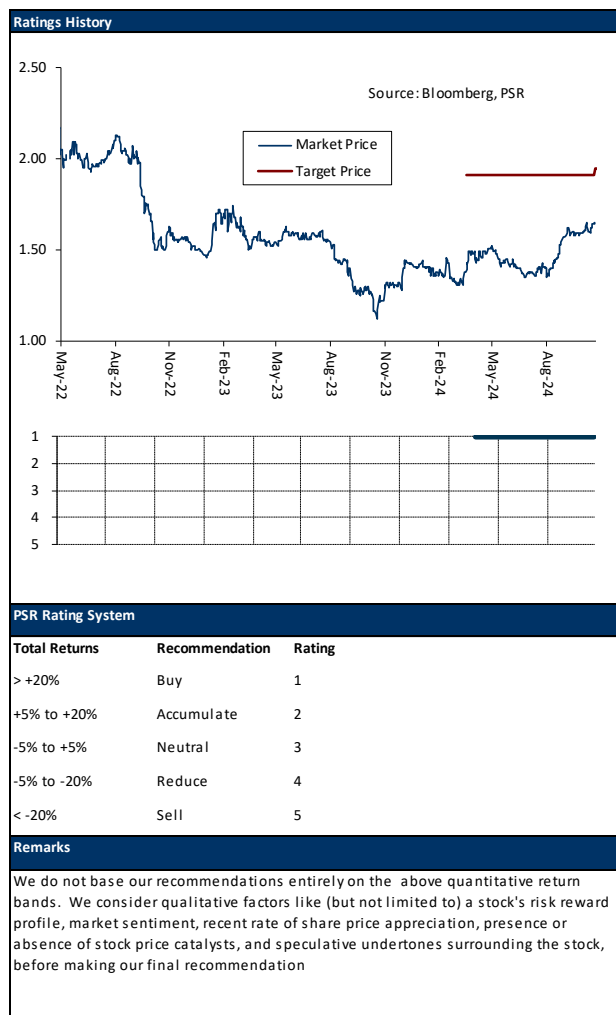
Y/E Dec, (€\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	2,449,014	2,509,407	2,241,570	2,227,435	2,210,847
Others	6,902	27,845	12,650	12,886	12,660
Total non-current assets	2,455,916	2,537,252	2,254,220	2,240,321	2,223,507
Trade receivables	18,491	16,340	14,450	15,993	15,211
Cash	59,258	35,432	73,795	83,833	96,807
Others	865	960	25,008	25,008	25,008
Total current assets	78,614	52,732	113,253	124,834	137,026
Total Assets	2,534,530	2,589,984	2,367,473	2,365,156	2,360,533
LIABILITIES					
Loans and borrowings	23,000	50,630	-	-	-
Trade payables	35,691	42,385	42,073	44,237	44,231
Others	55,492	86,908	40,181	40,181	40,181
Total current liabilities	91,183	129,293	82,254	84,418	84,412
Loans and borrowings	899,729	964,284	947,600	947,600	947,600
Others	66,338	73,486	82,478	88,648	94,449
Total non-current liabilities	966,067	1,037,770	1,030,078	1,036,248	1,042,049
Total Liabilities	1,057,250	1,167,063	1,112,332	1,120,665	1,126,461
Net assets	1,477,280	1,422,921	1,255,141	1,244,490	1,234,072
Represented by:					
Unitholders' funds	1,477,280	1,422,921	1,255,141	1,244,490	1,234,072

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.65	0.68	0.77	0.78	0.79
Distribution Yield (%)	10.2	10.5	9.6	8.7	8.2
NPI yield (%)	10.6	5.5	5.7	5.8	6.0

Growth & Margins

Growth					
Revenue	7.0%	11.0%	-2.5%	-1.1%	2.5%
Net property income (NPI)	10.9%	5.1%	-1.8%	-3.2%	2.5%
Distributable income	5.1%	3.3%	-8.7%	-9.5%	-5.6%
DPU	0.5%	3.0%	-8.7%	-9.5%	-5.6%
Margins					
NPI margin	65.0%	61.6%	62.0%	60.8%	60.8%
Key Ratios					
Net Debt or (Net Cash)	863,471	979,482	873,805	863,767	850,793
Gearing	36.4%	39.2%	40.0%	40.1%	40.1%



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