

CapitaLand Ascott Trust

On the right track



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SINGAPORE | REAL ESTATE (HOSPITALITY) | FY22 Results

09 February 2023

- FY22 DPU of 5.67 cents (+31%) was in line with our forecast, supported by new acquisitions and the recovery of travel.
- 4Q22 portfolio RevPAU rose 78% YoY to S\$155, reaching pre-pandemic 4Q19 levels on continued improvement in portfolio occupancy (78% vs 60% in 4Q21) and average daily rates (ADR).
- Maintain BUY, DDM-TP raised from S\$1.13 to S\$1.26. FY23e-FY25e DPU is raised by 1-3% on the continued recovery for hospitality and the reopening of China. Our cost of equity decreased from 8.34% to 7.96% as we roll forward our forecasts. CLAS remains our top pick in the sector owing to its mix of stable and growth income and geographical diversification. The current share price implies a FY23e dividend yield of 5.9%.

Results at a glance

(SGD mn)	2H22	2H21	YoY	FY22	FY21	YoY	Comments
Gross revenue	353.8	209.4	69%	621.2	394.4	58%	Higher revenue from its existing portfolio and contributions from its expanded portfolio of longer-stay assets, comprising student accommodation and rental housing properties in the US and Japan, newly acquired service residences in Australia, France and Vietnam, as well as from 1st one-north Singapore which soft opened in 4Q21.
Gross Profit	164.6	91.2	80%	282.8	173.3	63%	Higher gross profit margins on the back of higher revenue and cost savings
Distributable income	113.2	73.5	54%	189.8	137.3	38%	FY21 DI included S\$45mn in divestment gains distributed to replace income lost from divested assets and to mitigate impact of COVID-19 on distributions
DPS (cents)	3.33	2.27	47%	5.67	4.32	31%	

Source: Company, PSR

The Positives

- 4Q22 RevPAU grew 78%/17% YoY/ QoQ to S\$155**, reaching pre-pandemic 4Q19 pro forma RevPAU. YoY improvement was driven by both higher average daily rates (ADRs), which is up c.37% YoY in 4Q22, and higher occupancy of 78% in 4Q22 (4Q21: 60%). All markets experienced strong RevPAU growth YoY (see Figure 1), with Singapore, Australia, US and UK RevPAU at or above pre-COVID-19 levels. Management guided that the growth drivers for RevPAU in 2023 were in China, Japan, and Vietnam which are currently at 80%, 73% and 78% of 4Q19 levels, respectively.
- Portfolio valuation remained stable.** CLAS reported a gross fair value gain of c.S\$200mn despite higher capitalisation and discount rates used across all markets (with the exception of Japan), due to the stronger operating performance and improving outlook of the portfolio. Across most markets, capitalisation rates increased by 25-50bps. Markets with valuation gains included those with RevPAU above normalised levels such as Singapore, Australia, USA and UK (3 – 7% YoY increase).
- Prudent capital management, with c.78% of debt on fixed rate**, locked in for a weighted average of c.4 years. CLAS' cost of borrowing remained low for the quarter at 1.8%, with an interest cover of 4.4x. Gearing of 38% means a debt headroom of c.S\$1.8bn, leaving room for CLAS to reach its medium-term asset allocation of 25-30% for longer-stay accommodation (currently at 19%). Only 14% of total debt, or about S\$400mn, is due for refinancing in 2023. CLAS expects average borrowing costs for the full year 2023 to be around 2.05%. A 50bps increase in benchmark rates will impact full-year DPU by 0.1 cents.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.090
FORECAST DIV	SGD 0.065
TARGET PRICE	SGD 1.260
TOTAL RETURN	21.6%

COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN):	3,446
MARKET CAP (USD mn / SGD mn):	2837 / 3756
52 - WK HI/LO (SGD):	1.18 / 0.87
3M Average Daily T/O (mn):	6.52

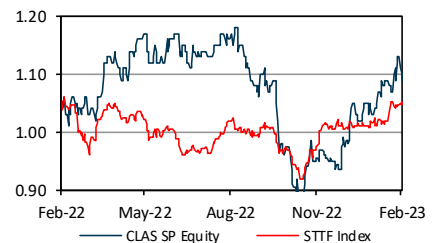
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.0	18.1	6.9
STTF RETURN	3.2	8.1	3.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev. (\$\$mn)	394	621	686	725
Gross Profit (\$\$mn)	173	283	329	368
Dist. Inc. (\$\$mn)	151	203	241	270
P/NAV (x)	0.92	0.95	0.96	0.98
DPU (cents)	4.32	5.67	6.51	7.33
Distribution Yield	4.0%	5.2%	6.0%	6.7%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.96%; Terminal g: 1.75%)

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The Negative

- **Foreign exchange headwinds continue to impact DPU.** The impact of foreign exchange after hedges in place on gross profit was 2.8% for FY22. CLAS adopts a natural hedge wherever possible by borrowing in the currency of the underlying assets. A 5% depreciation in foreign currency implies a c.3% impact to DPU.

Outlook

Extended stay segment remains resilient, comprising c.15% of 4Q22 gross profit. Occupancy of the longer stay properties remained stable at >95%. Student accommodation continues to be resilient with 99% leased for the academic year 2022-2023 (vs 95% last academic year), with above market rent growth of c.6% YoY. Longer-stay accommodation offers income stability as the hospitality properties capture growth from recovering markets.

Forward bookings remain healthy, supported by the recovery of both short and long-stay corporate travel. Although there is not much increase in bookings from Chinese tourists, inquiries are strong. In 2019, Chinese travelers contributed about 9% of CLAS' guests count (3% in 2022), and we expect this to pick up in 2H of 2023.

CLAS can raise room rates to abate rising utility and labor costs. Electricity cost increased but remain <10% of OPEX. Electricity charges are passed through to tenants in US student accommodation and Japan rental housing properties, while utility usage above a certain threshold will be passed through to guests in long-staying SRs.

Four properties will be undergoing enhancements in 2023. They include Riverside Hotel Robertson Quay, which will be rebranded as The Robertson House by The Crest Collection, Citadines Holborn-Covent Garden London, Citadines Les Halles Paris and Citadines Kurfürstendamm Berlin.

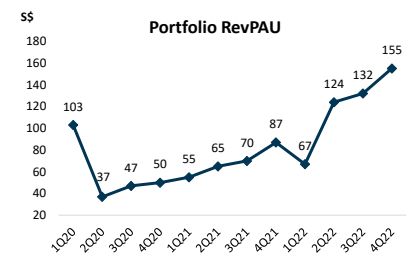
Maintain BUY, DDM-based TP raised from S\$1.13 to S\$1.26.

FY23e-FY25e DPU is raised by 1-3% on the continued recovery for hospitality and the reopening of China. Our cost of equity decreased from 8.34% to 7.96% as we roll forward our forecasts. CLAS remains our top pick in the sector with its geographically diversified portfolio, wide range of lodging asset classes, stable income base which has proven its resilience through COVID-19, and a strong sponsor. We also like that CLAS has a good mix of stable and growth income sources of 52% and 48% of 2H22 gross profit, respectively. The current share price implies a FY23e dividend yield of 5.9%.

Figure 1: RevPAU performance for CLAS's portfolio and seven key markets

RevPAU change YoY on a same store basis			
4Q22 Portfolio RevPAU		78%	
Australia	134%	Singapore	178%
China	15%	UK	80%
Vietnam	98%	US	73%
Japan	211%		

Source: CLAS, PSR



Source: CLAS, PSR

Figure 2: Portfolio RevPAU recovery and occupancy

	S\$	QoQ	YoY	Portfolio Occupancy
1Q20	103	-36%	-23%	Above breakeven
2Q20	37	-64%	n.a.	c.30%
3Q20	47	27%	-70%	c.40%
4Q20	50	6%	-69%	c.45%
1Q21	55	10%	-47%	c.50%
2Q21	65	18%	76%	c.55%
3Q21	70	8%	49%	c.55%
4Q21	87	24%	74%	c.60%
1Q22	67	-23%	22%	c.50%
2Q22	124	85%	91%	c.70%
3Q22	132	6%	88%	> 70%
4Q22	155	17%	78%	78%

Source: CLAS, PSR

RevPAU: Revenue per available unit

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Gross revenue	370	394	621	686	725
Direct expenses	(220)	(221)	(338)	(357)	(356)
Gross Profit	150	173	283	329	368
Net finance (expense)/inc.	(58)	(53)	(68)	(62)	(68)
Manager's fees	(25)	(25)	(30)	(32)	(34)
Others	11	(19)	(38)	(20)	(21)
Net income	59	74	131	195	228
FV changes	(406)	147	128	-	-
Others	11	(19)	(38)	(20)	(21)
Total return before tax	(268)	375	260	195	228
Taxation	43	(65)	(34)	(25)	(30)
Total return after tax	(225)	310	226	170	199
Distribution adjustments	332	(158)	(20)	73	75
Distributable income	110	151	203	241	270

Per share data (cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
NAV	1.15	1.19	1.15	1.13	1.11
DPU	3.03	4.32	5.67	6.51	7.33

Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Net income	(268)	375	260	195	228
Adjustments	417	(179)	51	124	130
WC changes	(51)	(46)	7	(24)	6
Cash generated from ops	97	150	318	295	365
Others	(22)	(4)	(32)	(6)	(9)
Cashflow from operations	75	145	286	289	356
CFI					
CAPEX, net	(20)	(101)	(36)	(75)	(21)
Net Investments in SR & PPE	198	(621)	(283)	(84)	(11)
Others	118	184	11	2	2
Cashflow from investments	296	(539)	(309)	(157)	(30)
CFF					
Share issuance, net	-	150	170	-	-
Loans, net of repayments	52	332	162	120	-
Dividends	(156)	(157)	(206)	(243)	(273)
Others	(62)	(67)	(69)	(64)	(70)
Cashflow from financing	(166)	259	57	(187)	(343)
Net increase (decrease) in CCE	204	(134)	31	(67)	(19)
Ending cash	484	344	350	283	264
Restricted cash deposits	3	3	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

*NPI and and gross profit are used interchangeably

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
SR properties and PPE	6,527	7,225	7,434	7,562	7,564
Others	15	44	88	99	99
Total non-current assets	6,542	7,270	7,522	7,661	7,663
Trade Receivables	103	104	112	182	192
Cash	487	346	364	286	267
Others	15	44	88	99	99
Total current assets	622	463	502	492	484
Total Assets	7,164	7,733	8,024	8,153	8,147
LIABILITIES					
LT Borrowings	2,129	1,965	2,473	2,465	2,663
Others	455	429	435	447	459
Total non-current liabilities	2,584	2,394	2,908	2,911	3,122
Trade Payables	185	167	244	290	306
ST Borrowings	333	764	402	530	332
Others	455	429	435	447	459
Total non-current liabilities	2,584	2,394	2,908	2,911	3,122
Total Liabilities	3,122	3,366	3,579	3,756	3,785
Net assets	4,042	4,368	4,445	4,397	4,361

Represented by:

Unitholders' funds	3,567	3,891	3,965	3,917	3,881
Perpetual securities hold	396	396	396	396	396
Non-controlling interests	79	81	83	84	84

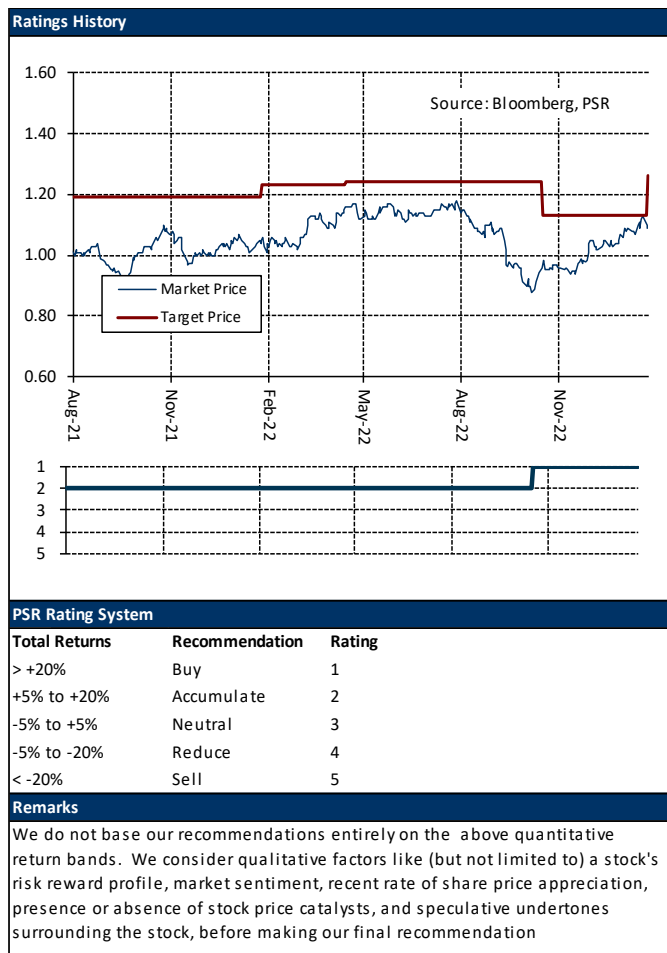
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.95	0.92	0.95	0.96	0.98
Distribution Yield (%)	2.8%	4.0%	5.2%	6.0%	6.7%
NPI** yield (%)	2.4%	2.5%	4.0%	4.6%	5.0%

Growth & Margins (%)

Growth					
Revenue	-28.2%	6.6%	57.5%	10.4%	5.7%
Gross profit	-40.8%	15.8%	63.2%	16.3%	12.0%
Net income	-66.3%	26.7%	76.5%	48.7%	16.9%
DPU	-60.2%	42.6%	31.3%	14.9%	12.5%
Margins					
Gross profit	40.4%	43.9%	45.5%	48.0%	50.8%
NPAT	-60.9%	78.7%	36.4%	24.8%	27.5%
Key Ratios					
Gearing	37.7%	37.8%	38.7%	39.6%	39.6%
ROA	-3.1%	4.2%	2.8%	2.1%	2.4%
ROE	-6.0%	8.3%	5.7%	4.2%	5.0%



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