

CapitaLand Ascott Trust

Rebound underway



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SINGAPORE | REAL ESTATE (HOSPITALITY) | 3Q22 Results

01 November 2022

- No financials provided in this business update. 3Q22 gross profit is at c.90% of pre-COVID-19 levels. Portfolio RevPAU jumped 88% YoY to S\$132 due to higher average daily rate and occupancy (>70%), and is c.87% of 3Q19 pro forma RevPAU.
- 76% of debts at fixed rate. Every 50bps rise in interest rates would impact DPU by c.2%.
- Upgrade to BUY, DDM-TP lowered from S\$1.24 to S\$1.13. FY22e-FY24e DPU lowered by 5-7% on the back of foreign currency headwinds and an enlarged share base from the private placement as we pencil in the acquisition of S\$318.3mn in assets. Our cost of equity increased from 8.14% to 8.34% on a higher risk-free rate assumption. Catalysts include the reopening of China, opportunistic divestments, and acquisitions of extended stay assets to raise the proportion of stable income sources to 25-30% to cushion the impact from recessionary concerns, rising inflation and macroeconomic uncertainties.

The Positives

- 3Q22 RevPAU grew 88%/6% YoY/ QoQ**, currently at 87% of pre-pandemic levels. YoY improvement was driven by both higher average daily rates (ADRs), which is up c.50% YoY in 3Q22, and higher occupancy of >70% in 3Q22 (3Q21: 55%). All markets experienced strong RevPAU growth YoY except for China and Japan (see Figure 1), with Australia, US and UK RevPAU close to pre-COVID-19 levels. Singapore exceeded pre-COVID-19 levels with the F1 Singapore Grand Prix boosting demand. Japan's 3Q22 RevPAU was 12% lower YoY due to a strong base as Tokyo properties benefitted from the Olympic Games in 3Q21. Growth in Japan could pick up quickly after its reopening, supported by the weak yen and its popularity as a tourist destination.
- Extended stay segment remains resilient**, comprising c.15% of 3Q22 gross profit. Occupancy of the longer stay properties remained stable at >95%. Student accommodation is 99% leased for the academic year 2022-2023, with above market rent growth of c.6% YoY. The proposed acquisition of 9 properties in France, Japan, Vietnam, US and Australia will increase the proportion of longer-stay asset allocation from 17% to 19%, keeping CLAS on track to achieve its target asset allocation of 25-30%. Longer-stay accommodation offers income stability as the hospitality properties capture growth from recovering markets.
- High proportion of debts at fixed rate, c.76%**, locked in for a weighted average of c.3.5 years. CLAS managed to maintain its low effective borrowing cost at 1.7% this quarter after repaying and refinancing the majority of debt due in 2022, with only RMB debts remaining. Every 50bp change in interest rates would have a c.2% impact on DPU.

The Negative

- The Strong Singapore Dollar continues to impact DPU.** The impact of foreign exchange after hedges in place on gross profit was 2.1% for 9M22. 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.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 0.955
FORECAST DIV	SGD 0.048
TARGET PRICE	SGD 1.130
TOTAL RETURN	23.4%

COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN):	3442
MARKET CAP (USD mn / SGD mn):	2321 / 3287
52 - WK HI/LO (SGD):	1.18 / 0.87
3M Average Daily T/O (mn):	7.93

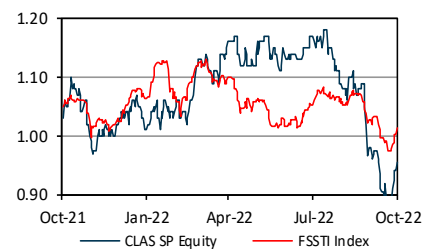
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.7	15.6	14.5
STI RETURN	(0.8)	4.4	8.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (\$\$mn)	370	394	509	624
Gross Profit (\$\$mn)	150	173	230	296
Dist. Inc. (\$\$mn)	110	151	178	214
P/NAV (x)	0.83	0.80	0.82	0.83
DPU (cents)	3.03	4.32	4.83	5.74
Distribution Yield	3.2%	4.5%	5.1%	6.0%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 8.34%; Terminal g: 1.75%)

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Outlook

Forward bookings indicate sustained pent-up demand, with more corporate and international travel returning, enabling CLAS to raise room rates and abate rising utility and labor costs. Electricity cost has increased but remain <10% of OPEX. Most of CLAS' electricity requirements have been hedged through fixed rate contracts. 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.

In terms of capital management, CLAS' gearing of 35.8% means a debt headroom of c.S\$2bn, leaving room for it to reach its medium term asset allocation of 25-30% for longer-stay accommodation.

Upgrade to BUY, DDM-based TP lowered from S\$1.24 to S\$1.13

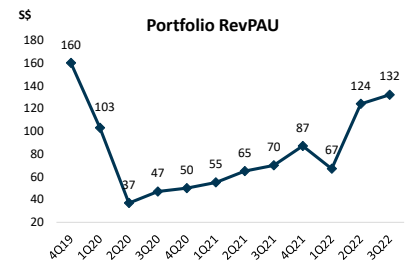
FY22e-FY24e DPU lowered by 5-7% on the back of foreign currency headwinds and an enlarged share base from the private placement. We also pencilled in the acquisition of S\$318.3mn in assets that are expected to be completed in 4Q22. Our cost of equity increased from 8.14% to 8.34% on a higher risk-free rate assumption. Catalysts include the reopening of China, opportunistic divestments, and acquisitions of extended stay assets to raise the proportion of stable income sources to 25-30% to cushion the impact from recessionary concerns, rising inflation and macroeconomic uncertainties. CLAS remains our top pick in the REIT sector with its geographically diversified portfolio, range of lodging asset classes, stable income base which has proven its resilience through COVID-19, and a strong sponsor.

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

RevPAU change YoY on a same store basis			
3Q22 Portfolio RevPAU			
Australia	126%	Singapore	174%
China	-1%	UK	131%
Vietnam	93%	US	140%
Japan	-12%		

Source: ART, PSR

Source: CLAS, PSR



Source: CLAS, PSR

Figure 2: Portfolio RevPAU recovery

	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%

Source: CLAS, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	515	370	394	509	624
Direct expenses	(262)	(220)	(221)	(279)	(328)
Gross Profit	253	150	173	230	296
Net finance (expense)/inc.	(50)	(58)	(53)	(53)	(57)
Manager's fees	(23)	(25)	(25)	(32)	(33)
Others	(6)	11	(19)	(15)	(18)
Net income	175	59	74	112	172
FV changes	249	(406)	147	-	-
Others	(6)	11	(19)	(15)	(18)
Total return before tax	261	(268)	375	112	172
Taxation	(45)	43	(65)	(19)	(29)
Total return after tax	216	(225)	310	93	143
Distribution adjustments	(31)	332	(158)	87	74
Distributable income	185	110	151	178	214

Per share data (cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV	1.25	1.15	1.19	1.16	1.15
DPU	7.61	3.03	4.32	4.83	5.74

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Net income	261	(268)	375	112	172
Adjustments	(163)	417	(179)	111	115
WC changes	(6)	(51)	(46)	65	29
Cash generated from ops	92	97	150	289	316
Others	(23)	(22)	(4)	(4)	(7)
Cashflow from operations	69	75	145	285	310
CFI					
CAPEX, net	(22)	(20)	(101)	(57)	(58)
Net Investments in SR & PPE	280	198	(621)	(322)	(77)
Others	0	118	184	4	5
Cashflow from investments	259	296	(539)	(375)	(130)
CFF					
Share issuance, net	-	-	150	170	-
Loans, net of repayments	(198)	52	332	162	120
Dividends	(183)	(156)	(157)	(179)	(216)
Others	(59)	(62)	(67)	(57)	(61)
Cashflow from financing	(440)	(166)	259	96	(158)
Net increase (decrease) in CCE	48	204	(134)	(17)	10
Ending cash	270	484	344	327	337
Restricted cash deposits	5	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	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
SR properties and PPE	6,800	6,527	7,225	7,574	7,681
Others	28	15	44	66	77
Total non-current assets	6,828	6,542	7,270	7,641	7,758
Trade Receivables	62	103	104	76	94
Cash	276	487	346	330	339
Others	28	15	44	66	77
Total current assets	595	622	463	417	444
Total Assets	7,423	7,164	7,733	8,058	8,202
LIABILITIES					
LT Borrowings	2,012	2,129	1,965	2,350	2,560
Others	503	455	429	437	452
Total non-current liabilities	2,515	2,584	2,394	2,787	3,012
Trade Payables	173	185	167	204	250
ST Borrowings	337	333	764	541	451
Others	503	455	429	437	452
Total non-current liabilities	2,515	2,584	2,394	2,787	3,012
Total Liabilities	3,080	3,122	3,366	3,572	3,753
Net assets	4,342	4,042	4,368	4,485	4,449

Represented by:

Unitholders' funds	3,861	3,567	3,892	4,010	3,972
Perpetual securities hold	396	396	396	396	396
Non-controlling interests	85	79	79	80	80

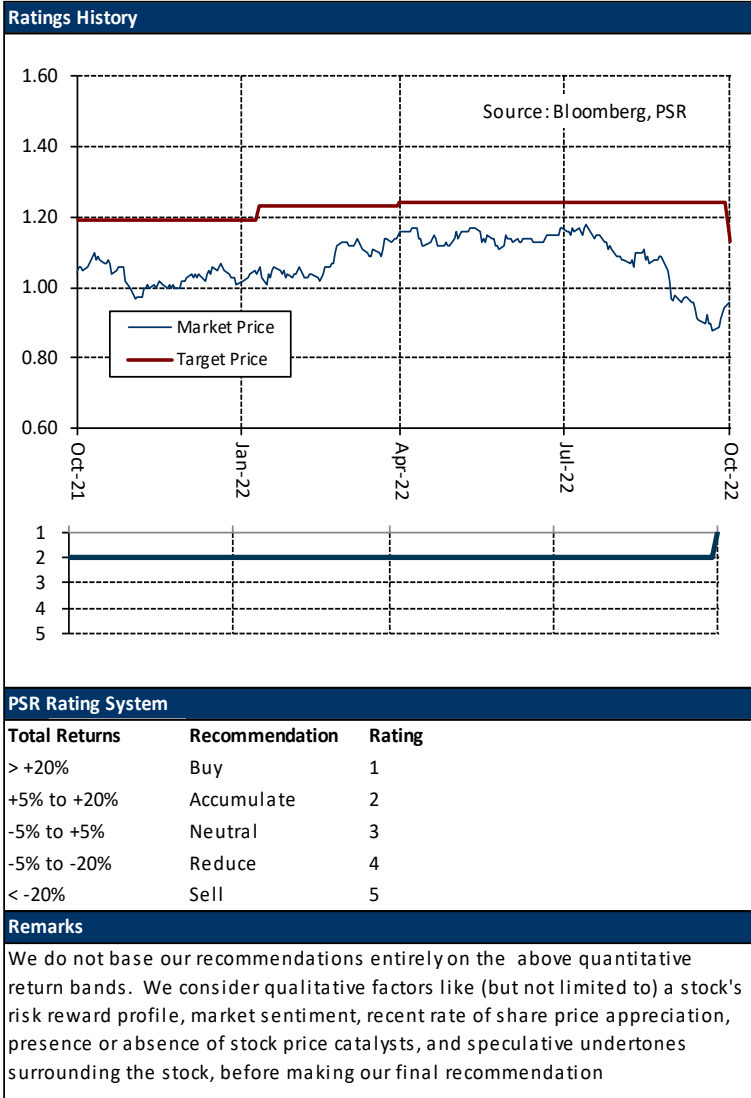
*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.76	0.83	0.80	0.82	0.83
Distribution Yield (%)	8.0%	3.2%	4.5%	5.1%	6.0%
NPI** yield (%)	3.8%	2.4%	2.5%	3.2%	4.1%

Growth & Margins (%)

Growth					
Revenue	0.1%	-28.2%	6.6%	29.0%	22.6%
Gross profit	5.5%	-40.8%	15.8%	32.8%	28.6%
Net income	11.1%	-66.3%	26.7%	50.5%	53.7%
DPU	6.3%	-60.2%	42.6%	11.7%	18.9%
Margins					
Gross profit	49.1%	40.4%	43.9%	45.2%	47.4%
NPAT	42.0%	-60.9%	78.7%	18.3%	22.9%
Key Ratios					
Gearing	34.5%	37.7%	37.8%	38.2%	39.2%
ROA	3.4%	-3.1%	4.2%	1.2%	1.7%
ROE	6.6%	-6.0%	8.3%	2.3%	3.5%



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