

CapitaLand Ascott Trust

Still room for RevPAU growth



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SINGAPORE | REAL ESTATE (HOSPITALITY) | 1H23 Results

31 July 2023

- 1H23 DPU of 2.78 cents (+19% YoY) was in line with expectations and formed 43% of our FY23e forecast, with seasonally stronger performance expected in the second half of the year. Excluding one-off items relating to realised exchange gain from the repayment of foreign currency bank loans and settlement of cross currency interest rate swaps, DPU increased 37% YoY.
- 2Q23 portfolio RevPAU rose 20% YoY to S\$149, reaching 98% of pre-COVID 2Q19 levels on the continued improvement in portfolio occupancy (75% vs 70% in 2Q22) and average daily rates (ADR).
- Downgrade from BUY to ACCUMULATE, DDM-TP trimmed from S\$1.26 to S\$1.20. FY23e/FY24e DPU is lowered by 4%/6% on higher interest assumptions. 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 an FY23e dividend yield of 5.7%.

Results at a glance

(SGD mn)	1H23	1H22	YoY	Comments
Gross revenue	346.9	267.4	30%	Stronger operating performance of CLAS's properties and contributions from the acquisition of 14 longer-stay assets in FY22 and 2Q23.
Gross Profit	154.4	118.2	31%	
Finance costs	(41.7)	(31.3)	33%	Higher interest expense.
Distributable income	96.2	76.6	26%	
DPU (cents)	2.78	2.33	19%	
RevPAU (S\$)	138	96	44%	

The Positives

- 2Q23 RevPAU grew 20% YoY to S\$149** and is at 98% of pre-pandemic 2Q19 pro-forma RevPAU. YoY improvement was driven by both higher average daily rates (ADRs), which is up c.12% YoY in 2Q23, and higher occupancy of 75% in 2Q23 (2Q22: 70%). All markets experienced RevPAU growth YoY (see Figure 1), with Singapore, Australia, USA, UK, and Japan performing above pre-COVID levels. Japan saw a spike in RevPAU by 247% YoY after its re-opening to independent leisure travellers in Oct 2022. Performance in China and Vietnam strengthened and are currently at 78% and 83% of 2Q19 levels respectively.
- Portfolio reconstitution strategy.** During the quarter, CLAS entered into conditional sale and purchase agreements to divest 4 properties in France for €44.4mn (S\$63.4mn) to a third party. The price is at a 63% premium to book value and an exit yield of c.4%, unlocking a net gain of €0.2mn (cS\$0.3mn). The expected completion of this divestment is in 4Q23. Standard at Columbia, the student accommodation development in South Carolina, USA, has obtained its temporary certificate of occupancy and is ready to receive students for the academic year 2023-24. It has a pre-committed occupancy of 87%. CLAS also has five properties that are currently undergoing AEs to enhance return, as well as the redevelopment of Somerset Liang Court which is expected to complete in 2H25.

ACCUMULATE(DOWNGRADED)

LAST CLOSE PRICE	SGD 1.100
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 1.200
TOTAL RETURN	14.8%

COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN):	3,463
MARKET CAP (USD mn / SGD mn):	2860 / 3810
52 - WK HI/LO (SGD):	1.18 / 0.87
3M Average Daily T/O (mn):	6.00

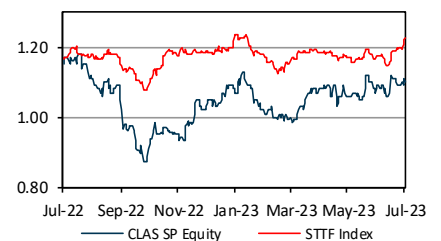
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.8	2.8	7.9
STTF RETURN	3.9	3.1	4.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev. (S\$m)	394	621	708	744
Gross Profit (S\$m)	173	283	335	363
Dist. Inc. (S\$m)	151	203	232	254
P/NAV (x)	0.92	0.96	0.97	0.99
DPU (cents)	4.32	5.67	6.26	6.86
Distribution Yield	3.9%	5.2%	5.7%	6.2%

Source: Bloomberg, PSR

VALUATION METHOD

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

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- + **Effective capital management.** Including capitalised interest, CLAS's effective borrowing cost remained unchanged at 2.4% QoQ. The percentage of loans on fixed rate increased from 75% to 80% as CLAS entered into more interest rate swaps during the quarter. Gearing improved marginally from 38.7% to 38.6% QoQ, leaving c.S\$1.8bn of debt headroom for CLAS to reach its medium-term asset allocation of 25-30% for longer-stay accommodation (currently at c.19%). We expect cost of debt to increase marginally as CLAS refinances 13% of its total debt (c.S\$372mn) due at the end of 2023 denominated in JPY, AUD and EURO. A 10bps increase in benchmark rates will impact full-year DPU by 0.02 Singapore cents.

The Negatives

- Nil

Outlook

Forward bookings remain healthy, supported by the strong demand from both international and domestic travel. We expect international travel to pick up pace as airline capacity increases – it has not fully recovered to 2019 levels. As corporates seek to optimize their expenses, many are downgrading from luxury to more cost-effective mid-tier mass market accommodation options. CLAS stands to benefit as the bulk of its portfolio comprises properties within the mid-tier segment, making it an attractive choice for cost-conscious corporate clients.

We forecast growth in ADRs to moderate as it has already surpassed pre-pandemic levels in some markets, and the driver for RevPAU growth going forward will be from higher occupancy. Portfolio occupancy at 75% is roughly 90% of pre-COVID occupancy.

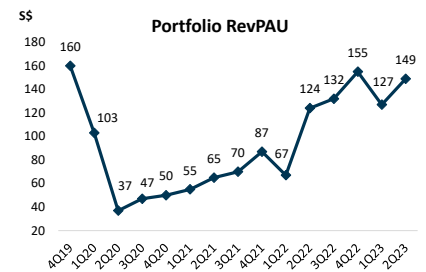
Downgrade from BUY to ACCUMULATE, DDM-based TP lowered from S\$1.26 to S\$1.20.

FY23e/FY24e DPU is lowered by 4%/6% on higher interest cost assumptions. 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 CLAS for its balanced mix of stable and growth income sources, which stands at 58% and 42% of gross profit in 1H23 respectively. The current share price implies a FY23e dividend yield of 5.7%.

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

RevPAU change YoY on a same store basis			
2Q23 Portfolio RevPAU		20%	
Australia	9%	Singapore	14%
China	37%	UK	27%
Vietnam	36%	US	16%
Japan	247%		

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%
1Q23	127	-18%	90%	c.70%
2Q23	149	17%	20%	75%

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	708	744
Direct expenses	(220)	(221)	(338)	(372)	(380)
Gross Profit	150	173	283	335	363
Net finance (expense)/inc.	(58)	(53)	(68)	(77)	(80)
Manager's fees	(25)	(25)	(30)	(33)	(34)
Others	11	(19)	(38)	(21)	(21)
Net income	59	74	131	186	211
FV changes	(406)	147	128	-	-
Others	11	(19)	(38)	(21)	(21)
Total return before tax	(268)	375	260	186	211
Taxation	43	(65)	(34)	(24)	(27)
Total return after tax	(225)	310	226	162	184
Distribution adjustments	332	(158)	(20)	73	74
Distributable income	110	151	203	232	254

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	6.26	6.86

Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Net income	(268)	375	260	186	211
Adjustments	417	(179)	51	139	142
WC changes	(51)	(46)	7	(21)	6
Cash generated from ops	97	150	318	304	359
Others	(22)	(4)	(32)	(6)	(8)
Cashflow from operations	75	145	286	299	351
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)	(234)	(257)
Others	(62)	(67)	(69)	(79)	(82)
Cashflow from financing	(166)	259	57	(193)	(339)
Net increase (decrease) in CCE	204	(134)	31	(63)	(19)
Ending cash	484	344	350	287	267
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	187	197
Cash	487	346	364	289	270
Others	15	44	88	99	99
Total current assets	622	463	502	501	492
Total Assets	7,164	7,733	8,024	8,163	8,155
LIABILITIES					
LT Borrowings	2,129	1,965	2,473	2,465	2,663
Others	455	429	435	446	457
Total non-current liabilities	2,584	2,394	2,908	2,911	3,120
Trade Payables	185	167	244	299	314
ST Borrowings	333	764	402	530	332
Others	455	429	435	446	457
Total non-current liabilities	2,584	2,394	2,908	2,911	3,120
Total Liabilities	3,122	3,366	3,579	3,764	3,791
Net assets	4,042	4,368	4,445	4,398	4,364

Represented by:

Unitholders' funds	3,567	3,891	3,965	3,918	3,883
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

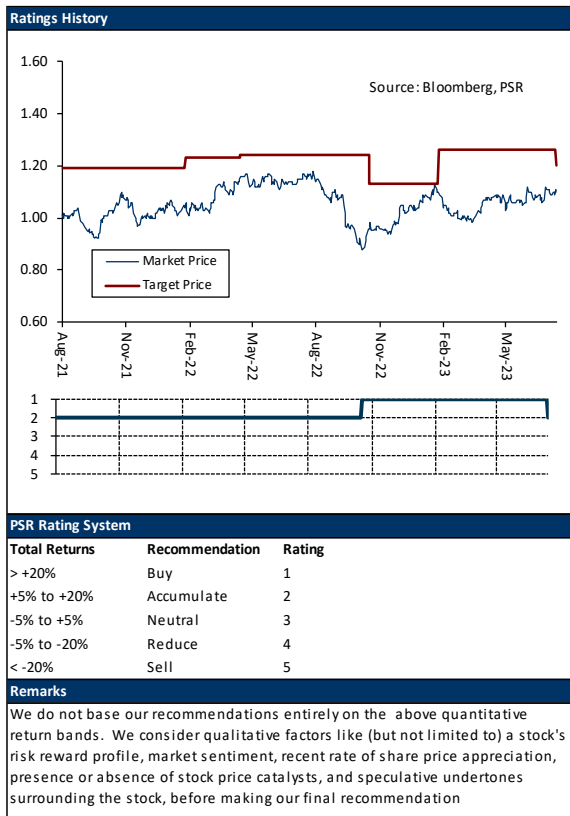
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.96	0.92	0.96	0.97	0.99
Distribution Yield (%)	2.8%	3.9%	5.2%	5.7%	6.2%
NPI** yield (%)	2.4%	2.5%	4.0%	4.7%	4.9%

Growth & Margins (%)

Growth					
Revenue	-28.2%	6.6%	57.5%	13.9%	5.1%
Gross profit	-40.8%	15.8%	63.2%	18.6%	8.4%
Net income	-66.3%	26.7%	76.5%	41.6%	13.7%
DPU	-60.2%	42.6%	31.3%	10.3%	9.6%
Margins					
Gross profit	40.4%	43.9%	45.5%	47.4%	48.9%
NPAT	-60.9%	78.7%	36.4%	22.9%	24.8%

Key Ratios

Gearing	37.7%	37.8%	38.7%	39.6%	39.6%
ROA	-3.1%	4.2%	2.8%	2.0%	2.2%
ROE	-6.0%	8.3%	5.7%	4.0%	4.6%



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