

# CapitaLand Ascott Trust

Occupancy to trend upwards



## SINGAPORE | REAL ESTATE (HOSPITALITY) | 3Q23 UPDATE

1 November 2023

- 3Q23 gross profit rose 13% YoY to reach 103% of pre-COVID 3Q19 levels.
- 3Q23 portfolio RevPAU rose 17% YoY to S\$154, reaching 102% of pre-COVID 3Q19 levels on the continued improvement in portfolio occupancy (77% vs 70% in 3Q22) and average daily rates (ADR). We expect effective borrowing cost to rise from 2.4% in 3Q23 to c.3% for FY24e after refinancing all loans due in FY24.
- Upgrade from ACCUMULATE to BUY due to recent share price performance, DDM-TP lowered from S\$1.20 to S\$1.04. FY23e/FY24e DPU is lowered by 6%/14% after accounting for the higher share base (+9%) from the equity fund-raising exercise, proposed acquisitions, and higher finance costs. CLAS remains our top pick in the sector owing to its mix of stable and growth income and geographical diversification. Growth in RevPAU going forward will come from higher portfolio occupancy. The current share price implies an FY23e/24e dividend yield of 6.6%.

### The Positives

- 3Q23 RevPAU grew 17% YoY to S\$154** reaching 102% of pre-pandemic 3Q19 pro-forma RevPAU. Average daily rates (ADRs) remained above pre-COVID levels, while occupancy improved 2ppts QoQ to 77% in 3Q23 (3Q22: 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 198% YoY after its re-opening to independent leisure travellers in Oct 2022. Performance in China and Vietnam continued to improve, with RevPAU at 80% and 84% of 3Q19 levels respectively. The stabilisation of the newly rebranded The Robertson House, which saw a 30% increase in room rates during early-bird sales, will provide further uplift to revenue from Singapore once renovation works complete in 1Q24.
- Resilience from stable income sources.** All 7 French master leases due in 2023 have been renewed in Oct 23 with total projected rents to be c.28% above existing rents under the new structure. Occupancy at the rental housing properties remained stable at >95%. 4Q23 will be the first full quarter contribution for Standard at Columbia, the student accommodation development in South Carolina, USA, which began receiving students from Aug 23 and was >90% occupied upon opening.
- Proactive capital management.** CLAS's effective borrowing cost remained unchanged at 2.4% QoQ. The percentage of loans on fixed rate increased from 80% to 83% QoQ, and interest cover remained healthy at 4.2x. Gearing improved from 38.6% to 35.2% QoQ after proceeds from the EFR in Aug 23 were partially used to pare down loans maturing in FY23 and higher floating rate debt, pending deployment into acquisitions in 4Q23. We expect FY24 cost of debt to increase to c.3% after refinancing 18% of its total debt (c.S\$496mn) due in FY24 denominated in EURO, USD and JPY. A 0.6% increase in CLAS's borrowing cost to 3% will impact full-year DPU by 0.1 Singapore cents.

### The Negatives

- Nil

No financials were provided in this business update.

### BUY (Upgraded)

LAST CLOSE PRICE	SGD 0.895
FORECAST DIV	SGD 0.059
TARGET PRICE	SGD 1.040
TOTAL RETURN	22.8%

#### COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN):	3,759
MARKET CAP (USD mn / SGD mn):	2461 / 3364
52 - WK HI/LO (SGD):	1.14 / 0.84
3M Average Daily T/O (mn):	9.04

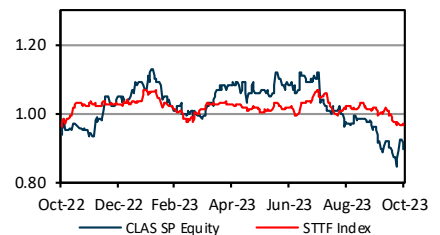
#### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.7)	(14.0)	(8.1)
STTF RETURN	(4.6)	(6.8)	(1.8)

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev. (\$\$mn)	394	621	708	744
Gross Profit (\$\$mn)	173	283	335	363
Dist. Inc. (\$\$mn)	151	203	228	239
P/NAV (x)	0.75	0.78	0.80	0.81
DPU (cents)	4.32	5.67	5.88	5.91
Distribution Yield	4.8%	6.3%	6.6%	6.6%

Source: Bloomberg, PSR

#### VALUATION METHOD

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

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**Outlook**

Forward bookings for 4Q23 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 most markets, and the driver for RevPAU growth going forward will be from higher occupancy. Portfolio occupancy at 77% is roughly 90% of pre-COVID occupancy. CLAS still has c.S\$300m in divestment gains yet to be distributed, and management indicated that CLAS will distribute part of it to mitigate the impact of The Cavendish London being closed for renovation from 4Q24 to 4Q25.

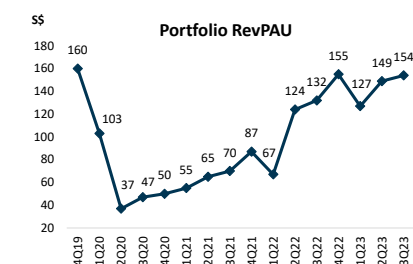
**Upgrade from ACCUMULATE to BUY, DDM-based TP lowered from S\$1.20 to S\$1.04.**

FY23e/FY24e DPU is lowered by 6%/14% after accounting for the higher share base from the equity fund-raising exercise, proposed acquisitions, and higher finance costs. 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 56% and 44% of gross profit in 3Q23, respectively. The current share price implies a FY23e/24e dividend yield of 6.6%.

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

RevPAU change YoY on a same store basis			
3Q23 Portfolio RevPAU			
Australia	18%	Singapore	20%
China	9%	UK	14%
Vietnam	22%	US	12%
Japan	198%		

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%
3Q23	154	3%	17%	77%

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
<b>Gross revenue</b>	<b>370</b>	<b>394</b>	<b>621</b>	<b>708</b>	<b>744</b>
Direct expenses	(220)	(221)	(338)	(372)	(380)
<b>Gross Profit</b>	<b>150</b>	<b>173</b>	<b>283</b>	<b>335</b>	<b>363</b>
Net finance (expense)/inc.	(58)	(53)	(68)	(80)	(95)
Manager's fees	(25)	(25)	(30)	(37)	(34)
Others	11	(19)	(38)	(21)	(21)
Net income	59	74	131	179	196
FV changes	(406)	147	128	-	-
Others	11	(19)	(38)	(21)	(21)
Total return before tax	(268)	375	260	179	196
Taxation	43	(65)	(34)	(23)	(25)
<b>Total return after tax</b>	<b>(225)</b>	<b>310</b>	<b>226</b>	<b>156</b>	<b>170</b>
Distribution adjustments	332	(158)	(20)	75	73
<b>Distributable income</b>	<b>110</b>	<b>151</b>	<b>203</b>	<b>228</b>	<b>239</b>

### Per share data (cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
NAV	1.15	1.19	1.15	1.12	1.10
DPU	3.03	4.32	5.67	5.88	5.91

### Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Net income</b>	<b>(268)</b>	<b>375</b>	<b>260</b>	<b>179</b>	<b>196</b>
Adjustments	417	(179)	51	145	158
WC changes	(51)	(46)	7	(21)	6
Cash generated from ops	97	150	318	303	359
Others	(22)	(4)	(32)	(5)	(8)
<b>Cashflow from operations</b>	<b>75</b>	<b>145</b>	<b>286</b>	<b>298</b>	<b>351</b>
<b>CFI</b>					
CAPEX, net	(20)	(101)	(36)	(75)	(21)
Net Investments in SR & PPE	198	(621)	(283)	(377)	(11)
Others	118	184	11	2	2
<b>Cashflow from investments</b>	<b>296</b>	<b>(539)</b>	<b>(309)</b>	<b>(450)</b>	<b>(30)</b>
<b>CFF</b>					
Share issuance, net	-	150	170	303	-
Loans, net of repayments	52	332	162	120	-
Dividends	(156)	(157)	(206)	(230)	(242)
Others	(62)	(67)	(69)	(82)	(97)
<b>Cashflow from financing</b>	<b>(166)</b>	<b>259</b>	<b>57</b>	<b>111</b>	<b>(339)</b>
<b>Net increase (decrease) in CCE</b>	<b>204</b>	<b>(134)</b>	<b>31</b>	<b>(53)</b>	<b>(20)</b>
<b>Ending cash</b>	<b>484</b>	<b>344</b>	<b>350</b>	<b>297</b>	<b>277</b>
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
<b>ASSETS</b>					
SR properties and PPE	6,527	7,225	7,434	7,855	7,857
Others	15	44	88	99	99
<b>Total non-current assets</b>	<b>6,542</b>	<b>7,270</b>	<b>7,522</b>	<b>7,954</b>	<b>7,956</b>
Trade Receivables	103	104	112	187	197
Cash	487	346	364	300	280
Others	15	44	88	99	99
<b>Total current assets</b>	<b>622</b>	<b>463</b>	<b>502</b>	<b>512</b>	<b>502</b>
<b>Total Assets</b>	<b>7,164</b>	<b>7,733</b>	<b>8,024</b>	<b>8,466</b>	<b>8,458</b>
<b>LIABILITIES</b>					
LT Borrowings	2,129	1,965	2,473	2,465	2,663
Others	455	429	435	445	455
<b>Total non-current liabilities</b>	<b>2,584</b>	<b>2,394</b>	<b>2,908</b>	<b>2,910</b>	<b>3,118</b>
Trade Payables	185	167	244	299	314
ST Borrowings	333	764	402	530	332
Others	455	429	435	445	455
<b>Total non-current liabilities</b>	<b>2,584</b>	<b>2,394</b>	<b>2,908</b>	<b>2,910</b>	<b>3,118</b>
<b>Total Liabilities</b>	<b>3,122</b>	<b>3,366</b>	<b>3,579</b>	<b>3,764</b>	<b>3,789</b>
<b>Net assets</b>	<b>4,042</b>	<b>4,368</b>	<b>4,445</b>	<b>4,702</b>	<b>4,669</b>

### Represented by:

<b>Unitholders' funds</b>	<b>3,567</b>	<b>3,891</b>	<b>3,965</b>	<b>4,222</b>	<b>4,188</b>
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

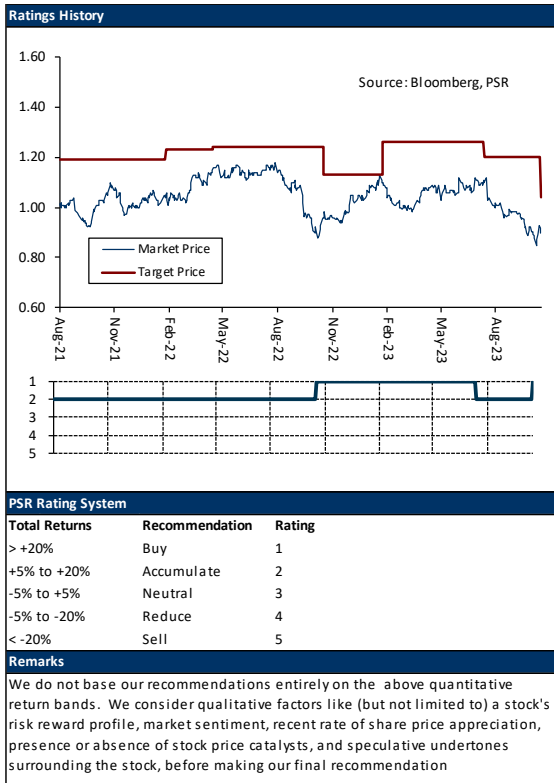
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.78	0.75	0.78	0.80	0.81
Distribution Yield (%)	3.4%	4.8%	6.3%	6.6%	6.6%
NPI** yield (%)	2.4%	2.5%	4.0%	4.5%	4.7%

### Growth & Margins (%)

<b>Growth</b>					
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%	36.0%	9.5%
DPU	-60.2%	42.6%	31.3%	3.7%	0.5%
<b>Margins</b>					
Gross profit	40.4%	43.9%	45.5%	47.4%	48.9%
NPAT	-60.9%	78.7%	36.4%	22.0%	22.9%

### Key Ratios

Gearing	37.7%	37.8%	38.7%	38.1%	38.1%
ROA	-3.1%	4.2%	2.8%	1.9%	2.0%
ROE	-6.0%	8.3%	5.7%	3.7%	4.0%



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