

# CapitaLand Ascott Trust

Occupancy to improve with ADRs stabilising



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## SINGAPORE | REAL ESTATE (HOSPITALITY) | 1Q24 UPDATE

25 April 2024

- No financials were provided in this business update. 1Q24 gross profit rose 15% YoY due to stronger operating performance and contributions from new properties. It was 7% higher YoY on a same-store basis.
- 1Q24 portfolio RevPAU rose 6% YoY to S\$135, in line with pre-COVID 1Q19 levels. 1Q24 average portfolio occupancy was stable YoY at 73%, and it was at 88% of pre-COVID levels.
- Upgrade from ACCUMULATE to BUY with an unchanged DDM-TP of S\$1.04 due to the recent share price performance. FY24e DPU is slightly lowered by 2% on higher interest costs assumptions. CLAS remains our top pick in the sector owing to its mix of stable and growth income sources and geographical diversification, which provide resilience amidst global uncertainties. Growth in RevPAU going forward will be driven by portfolio occupancy as ADR stabilises. The current share price implies an FY24e/25e dividend yield of 6.6/6.8%.

### The Positives

- 1Q24 RevPAU grew 6% YoY to S\$135**, in line with pre-pandemic 1Q19 pro-forma RevPAU mainly due to higher ADRs. Average portfolio occupancy was stable YoY at 73% - it was down 4ppts QoQ due to seasonality. RevPAU for CLAS's five key markets in Australia, Japan, Singapore, UK, and the USA continued to improve YoY (see Figure 1) and exceed pre-COVID 1Q19 levels on a same-store basis (excluding units under renovation).
- Strong capital management.** Gearing and interest cover remained healthy at 37.7% and 3.7x, respectively. CLAS's effective borrowing cost increased 60bps QoQ to 3%, mainly due to a higher proportion of GBP and EUR debt arising from the new acquisitions. Despite this increase, CLAS's borrowing costs remain relatively low compared to those of its industry peers. 82% of debt on a fixed rate. Additionally, we think CLAS will recall its S\$150mn, 3.88% perpetual bond at its first call date in Sep 24 to save on interest costs. Gearing will remain below 40% even if debt fully funds this.
- Portfolio recycling is in full swing.** In Jan 2024, CLAS acquired Teriha Ocean Stage, a rental housing property in Fukuoka, Japan, for JPY 8bn with an estimated net operating income yield of 4% on a stabilised basis. Five properties were divested in 1Q24, and they were Courtyard by Marriott Sydney-North Ryde in Australia, Hotel WBF Kitasemba East, Hotel WBF Kitasemba West and Hotel WBF Honmachi in Osaka, Japan, and Citadines Mount Sophia Singapore. All assets were divested at a premium above book value, locking in net gains of over S\$25mn. Proceeds from the divestments have been used to par down higher interest rate debt.

### The Negatives

- Nil

### Outlook

CLAS continues to remain focused on portfolio recycling. It aims to divest properties that have reached the optimal life cycle stage while redeploying proceeds into higher-yielding properties, funding AElS, and paying down higher interest-rate debt. It currently has seven properties in the pipeline for asset enhancements to unlock organic growth potential and drive higher returns.

### BUY (Upgraded)

LAST CLOSE PRICE	SGD 0.900
FORECAST DIV	SGD 0.059
TARGET PRICE	SGD 1.040
TOTAL RETURN	22.1%

### COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN):	3,763
MARKET CAP (USD mn / SGD mn):	2605 / 3500
52 - WK HI/LO (SGD):	1.13 / 0.84
3M Average Daily T/O (mn):	7.40

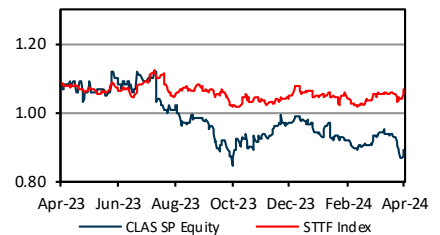
### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	31.8
VANGUARD GROUP	1.93
BLACKROCK INC	1.55

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.5)	(4.7)	(8.6)
STTF RETURN	0.2	1.4	(1.7)

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev. (\$\$mn)	621	745	763	783
Gross Profit (\$\$mn)	283	338	368	384
Dist. Inc. (\$\$mn)	203	251	239	250
P/NAV (x)	0.78	0.78	0.82	0.83
DPU (cents)	5.67	6.57	5.91	6.16
Distribution Yield	6.3%	7.3%	6.6%	6.8%

Source: Bloomberg, PSR

### VALUATION METHOD

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

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CLAS still has c.S\$300m in divestment gains yet to be distributed. 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.

Portfolio occupancy is expected to improve as international flight capacity increases and visa-free travel arrangements are implemented. Furthermore, China as a source country accounted for 9% of the pre-COVID portfolio, but it is currently only at 6%.

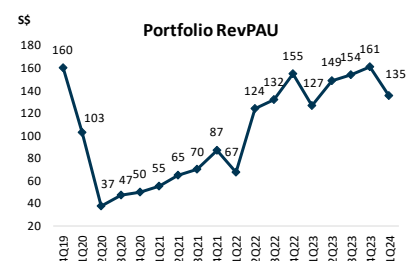
**Upgrade from ACCUMULATE to BUY, DDM-based TP unchanged at S\$1.04.**

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. The current share price implies an FY24e/25e dividend yield of 6.6/6.8%.

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

RevPAU change YoY			
1Q24 Portfolio RevPAU		6%	
Australia	8%	Singapore	6%
China	2%	UK	11%
Vietnam	7%	US	4%
Japan	31%		

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%	73%
2Q23	149	17%	20%	75%
3Q23	154	3%	17%	77%
4Q23	161	5%	4%	77%
1Q24	135	-16%	6%	73%

Source: CLAS, PSR

RevPAU: Revenue per available unit

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
<b>Gross revenue</b>	<b>394</b>	<b>621</b>	<b>745</b>	<b>763</b>	<b>783</b>
Direct expenses	(221)	(338)	(406)	(395)	(398)
<b>Gross Profit</b>	<b>173</b>	<b>283</b>	<b>338</b>	<b>368</b>	<b>384</b>
Net finance (expense)/inc.	(53)	(68)	(82)	(95)	(95)
Manager's fees	(25)	(30)	(34)	(34)	(35)
Others	(19)	(38)	10	(21)	(21)
Net income	74	131	210	198	212
FV changes	147	128	77	-	-
Others	(19)	(38)	10	(21)	(21)
Total return before tax	375	260	302	198	212
Taxation	(65)	(34)	(72)	(47)	(51)
<b>Total return after tax</b>	<b>310</b>	<b>226</b>	<b>230</b>	<b>150</b>	<b>161</b>
Distribution adjustments	(158)	(20)	19	92	93
<b>Distributable income</b>	<b>151</b>	<b>203</b>	<b>251</b>	<b>239</b>	<b>250</b>

### Per share data (cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV	1.19	1.15	1.16	1.10	1.08
DPU	4.32	5.67	6.57	5.91	6.16

### Cash Flow

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
<b>CFO</b>					
<b>Net income</b>	<b>375</b>	<b>260</b>	<b>302</b>	<b>198</b>	<b>212</b>
Adjustments	(179)	51	70	162	164
WC changes	(46)	7	(40)	3	3
Cash generated from ops	150	318	332	363	379
Others	(4)	(32)	(32)	(14)	(19)
<b>Cashflow from operations</b>	<b>145</b>	<b>286</b>	<b>301</b>	<b>348</b>	<b>360</b>
<b>CFI</b>					
CAPEX, net	(101)	(36)	(56)	(27)	(18)
Net Investments in SR & PPE	(621)	(283)	(280)	(105)	(105)
Others	184	11	39	5	5
<b>Cashflow from investments</b>	<b>(539)</b>	<b>(309)</b>	<b>(297)</b>	<b>(127)</b>	<b>(118)</b>
<b>CFF</b>					
Share issuance, net	150	170	303	-	-
Loans, net of repayments	332	166	81	-	-
Dividends	(157)	(184)	(215)	(242)	(253)
Others	(67)	(81)	(104)	(100)	(99)
<b>Cashflow from financing</b>	<b>259</b>	<b>71</b>	<b>64</b>	<b>(342)</b>	<b>(353)</b>
<b>Net increase (decrease) in CCE</b>	<b>(134)</b>	<b>45</b>	<b>68</b>	<b>(122)</b>	<b>(112)</b>
<b>Ending cash</b>	<b>344</b>	<b>364</b>	<b>459</b>	<b>337</b>	<b>224</b>
Restricted cash deposits	3	3	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

\*NPI and gross profit are used interchangeably

### Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
SR properties and PPE	7,225	7,434	7,734	7,831	7,917
Others	44	88	88	88	88
<b>Total non-current assets</b>	<b>7,270</b>	<b>7,522</b>	<b>7,821</b>	<b>7,919</b>	<b>8,005</b>
Trade Receivables	104	112	197	202	207
Cash	346	364	461	339	227
Others	44	88	88	88	88
<b>Total current assets</b>	<b>463</b>	<b>502</b>	<b>683</b>	<b>566</b>	<b>459</b>
<b>Total Assets</b>	<b>7,733</b>	<b>8,024</b>	<b>8,505</b>	<b>8,485</b>	<b>8,464</b>
<b>LIABILITIES</b>					
LT Borrowings	1,965	2,473	2,465	2,663	2,506
Others	429	435	468	493	517
<b>Total non-current liabilities</b>	<b>2,394</b>	<b>2,908</b>	<b>2,933</b>	<b>3,156</b>	<b>3,023</b>
Trade Payables	167	244	314	322	331
ST Borrowings	764	402	530	332	489
Others	429	435	468	493	517
<b>Total non-current liabilities</b>	<b>2,394</b>	<b>2,908</b>	<b>2,933</b>	<b>3,156</b>	<b>3,023</b>
<b>Total Liabilities</b>	<b>3,366</b>	<b>3,579</b>	<b>3,802</b>	<b>3,836</b>	<b>3,867</b>
<b>Net assets</b>	<b>4,368</b>	<b>4,445</b>	<b>4,702</b>	<b>4,649</b>	<b>4,597</b>

### Represented by:

<b>Unitholders' funds</b>	<b>3,891</b>	<b>3,965</b>	<b>4,228</b>	<b>4,174</b>	<b>4,121</b>
Perpetual securities holders	396	396	396	396	396
Non-controlling interests	81	83	78	79	80

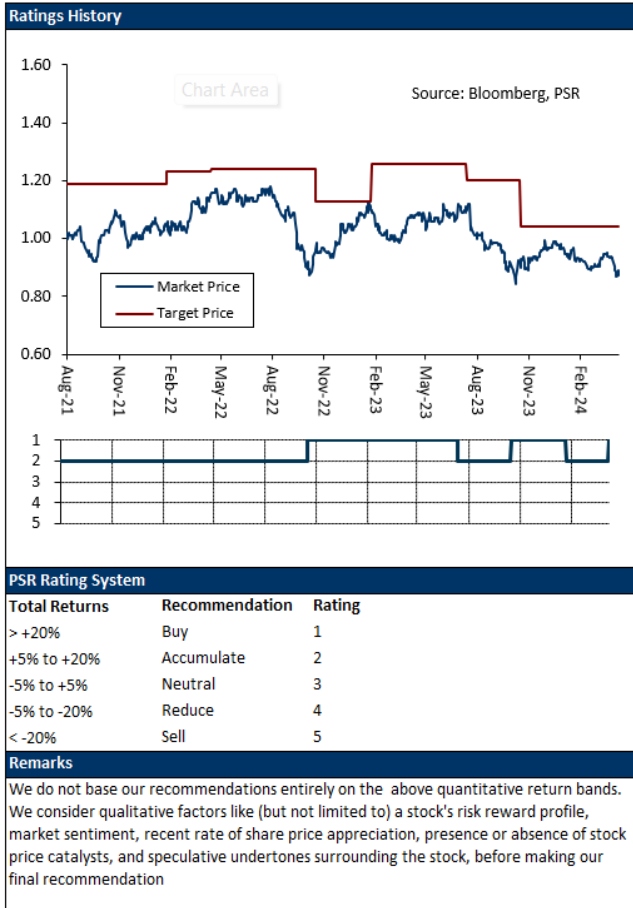
\*Some numbers may not tally due to rounding errors

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.76	0.78	0.78	0.82	0.83
Distribution Yield (%)	4.8%	6.3%	7.3%	6.6%	6.8%
NPI** yield (%)	2.5%	4.0%	4.6%	4.8%	4.9%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	6.6%	57.5%	19.8%	2.5%	2.6%
Gross profit	15.8%	63.2%	19.6%	8.8%	4.4%
Net income	26.7%	76.5%	59.5%	-5.7%	7.1%
DPU	42.6%	31.3%	15.9%	-10.1%	4.2%
<b>Margins</b>					
Gross profit	43.9%	45.5%	45.4%	48.2%	49.1%
NPAT	78.7%	36.4%	30.9%	19.7%	20.6%
<b>Key Ratios</b>					
Gearing	37.8%	38.7%	38.7%	38.2%	37.8%
ROA	4.2%	2.8%	2.8%	1.7%	1.8%
ROE	8.3%	5.7%	5.6%	3.5%	3.8%



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