

COMPANY UPDATE

CapitaLand Ascott Trust (CLAS SP)

Broad-based Recovery In 3Q23 Across Key Markets

Portfolio RevPAU grew 17% yoy and 3% qoq to S\$154 in 3Q23, which is 2% above pre-pandemic levels. Key markets in Japan (+198% yoy), Australia (+18% yoy) and the US (+12% yoy) registered the strongest sequential growth in RevPAU on a same-store basis. Balance sheet is resilient with interest coverage ratio at 4.2x and weighted average debt maturity at 3.7 years. CLAS provides 2024 distribution yield of 6.7%. **Maintain BUY. Target price: S\$1.25.**

WHAT'S NEW

- CapitaLand Ascott Trust (CLAS) provided its 3Q23 business update, which is in line with our expectation.
- **Broad-based recovery.** Portfolio RevPAU grew 17% yoy and 3% qoq to S\$154 in 3Q23 (2% above pre-pandemic levels). Key markets in Japan (+198% yoy), Australia (+18% yoy) and the US (+12% yoy) registered the strongest sequential growth in RevPAU on a same-store basis, which exceeded pre-pandemic levels by 17%, 13% and 10% respectively. RevPAU for Singapore and the UK was also above pre-pandemic levels by 26% and 10% yoy respectively. Portfolio occupancy improved by 2ppt qoq to 77%. On a constant currency basis, RevPAU expanded by 9-22% yoy with the exception of Japan, which tripled yoy on the successful reopening to international leisure travel.
- Gross profit increased 13% yoy in 3Q23, which is slower than growth of 31% yoy in 1H23, due to a higher base with a steep recovery in 3Q22.
- **Japan: Boost from international leisure demand.** RevPAU surged 198% yoy to ¥13,804, which exceeded pre-pandemic levels by 17%. The strong recovery was driven by international leisure travellers during the summer holiday season after Japan reopened in Oct 22. Room rates for Tokyo properties were 20% above pre-pandemic levels. Outlook for 4Q23 is positive due to increased domestic and international travel during the autumn season and the return of more Chinese tourists.
- **Australia: Uplift from large-scale sporting events.** RevPAU increased 18% yoy to A\$152, which exceeded pre-pandemic levels by 13%. CLAS benefitted from large-scale sporting events, such as FIFA Women's World Cup held across Australia and the AFL Grand Final in Melbourne. Outlook for 4Q23 is positive due to pick-up in travel during summer holidays. Corporate bookings have increased due to conferences.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	394	621	679	737	742
EBITDA	146	254	300	367	371
Operating profit	114	218	261	326	330
Net profit (rep./act.)	296	210	132	171	173
Net profit (adj.)	(1)	106	129	171	173
EPU (S\$ cent)	(0.0)	3.2	3.6	4.5	4.5
DPU (S\$ cent)	4.3	5.7	5.6	6.1	6.2
PE (x)	n.m.	28.8	25.3	20.2	20.2
P/B (x)	0.8	0.8	0.8	0.8	0.8
DPU Yld (%)	4.7	6.2	6.1	6.7	6.8
Net margin (%)	75.0	33.8	19.4	23.2	23.3
Net debt/(cash) to equity (%)	55.6	57.6	59.4	63.3	68.0
Interest cover (x)	2.8	3.8	3.7	4.0	3.8
ROE (%)	7.2	4.9	2.9	3.7	3.8
Consensus DPU (S\$ cent)	n.a.	n.a.	6.0	6.6	6.8
UOBKH/Consensus (x)	-	-	0.94	0.93	0.92

Source: Ascott Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.915
Target Price	S\$1.25
Upside	+36.6%
(Previous TP)	S\$1.27)

COMPANY DESCRIPTION

CLAS invests in income-producing real estate predominantly used as serviced residences, rental housing, student accommodation and other hospitality assets on a global basis.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CLAS SP
Shares issued (m):	3,759.1
Market cap (S\$m):	3,439.6
Market cap (US\$m):	2,515.6
3-mth avg daily t'over (US\$m):	6.3

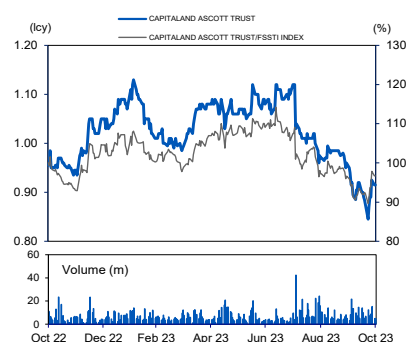
Price Performance (%)

52-week high/low	S\$1.13/S\$0.845			
1mth	3mth	6mth	1yr	YTD
(4.7)	(16.8)	(15.3)	(2.7)	(12.9)

Major Shareholders

	%
Temasek Hldgs	33.1
FY23 NAV/Share (S\$)	1.12
FY23 Net Debt/Share (S\$)	0.73

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **USA: Healthy performance from hotels and student accommodation.** RevPAU increased 12% yoy to US\$233, which exceeded pre-pandemic levels by 10%. CLAS' properties in New York City continue to benefit from the return of international leisure and corporate travellers. 4Q23 is seasonally stronger due to year-end holidays and corporate events. Student accommodation properties registered rent growth of 5.5% yoy (6.5% yoy excluding Wildwood Lubbock undergoing light AEI). Average occupancy was healthy at 94% in 3Q23. 678-bed Standard at Columbia in South Carolina received its first batch of students since Aug 23 and will be revalued as an investment property at end-23.

STOCK IMPACT

- **Stability from geographical diversification.** Outlook is clouded by geopolitical uncertainties and tight financial conditions. CLAS' geographical diversification and balanced 44:56 mix of growth and stable income assets provides resiliency.
- **Uplift from lease renewal in France.** CLAS has renewed seven French master leases expiring in 2023 for 12 years in Oct 23 (four leases commence from 1 Dec 23 and three leases from 1 Jan 24). Total rents from the seven French properties are expected to increase 28% under the renewed master lease rent structure based on the higher of fixed rent or variable rent. CLAS' 12 serviced residences in France will benefit from 2024 Summer Olympics held in Paris during 26 July to 11 August.
- **Acquiring properties at prime locations in key capital cities.** CLAS has signed MOUs to acquire three lodging assets, namely The Cavendish in London (230 units), Temple Bar Hotel in Dublin (136 units) and Ascott Kuningan in Jakarta (185 units), at an agreed property value of S\$530.8m. The Cavendish, Temple Bar Hotel and Ascott Kuningan provide EBITDA yield of 4.1%, 7.6% and 6.7% respectively. The acquisition is accretive to DPS by 1.8% on a pro forma basis for 2022 and is expected to complete in 4Q23.
- **Adding value to The Cavendish.** The Cavendish will be renovated (4Q24 to 4Q25) and rebranded under The Crest Collection brand, a luxury brand managed by Ascott. Average daily rate (ADR) is expected to increase from £250 to above £500 given The Cavendish's positioning as an entry-level luxury hotel. The property's valuation is expected to increase by £101m to £316m after renovation and stabilisation in 2027. EBITDA yield on total capitalised cost is expected to improve by 2.4ppt to 6.5% at stabilisation.
- **Continued asset recycling.** CLAS has completed the divestment for four matured properties in regional France for €44.4m in Sep 23, which is 63% above book value. The divestment at attractive exit yield of 4% provided a small divestment gain of €1.2m.

EARNINGS REVISION/RISK

- We trimmed our 2024 DPU forecast by 2% after fine-tuning our assumption for cost of debt.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.25 is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

SHARE PRICE CATALYST

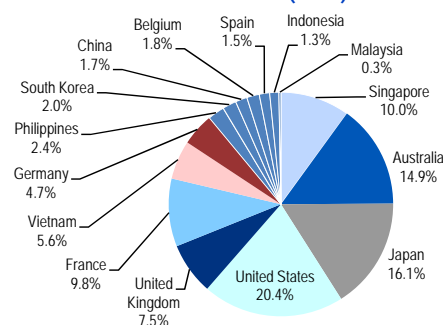
- Recovery of international arrivals and continued recovery in corporate demand as airlines increase flight capacities.
- Yield-accretive acquisitions for student accommodation and rental housing.

KEY OPERATING METRICS

	3Q22	4Q22	1Q22	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	3.330	n.a.	2.778	n.a.	n.a.	n.a.
Aggregate Leverage	35.8%	38.0%	38.7%	38.6%	35.2%	-0.6ppt	-3.4ppt
Weighted All-in-Financing Cost	1.7%	1.80%	2.3%	2.30%	2.40%	0.7ppt	0.1ppt
% Borrowings in Fixed Rate	76%	78.0%	75.0%	80.0%	83.0%	7ppt	3ppt
Weighted Debt Maturity (years)	3.5	4.0	3.9	3.6	3.7	0.2yrs	0.1yrs

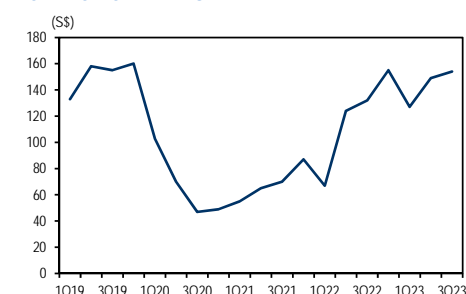
Source: CLAS, UOB Kay Hian * hoh % chg for DPU

GROSS PROFIT BY COUNTRY (1H23)



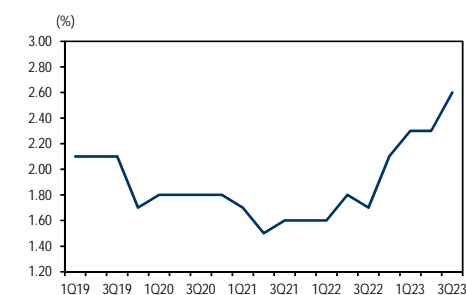
Source: CLAS

PORTFOLIO REVPAU



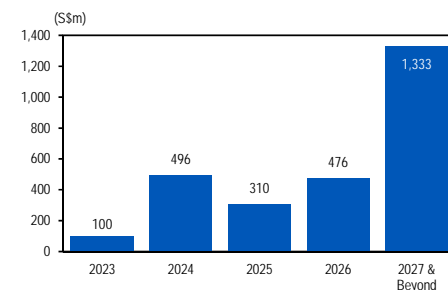
Source: CLAS

AVERAGE COST OF DEBTS



Source: CLAS

DEBT MATURITY PROFILE



Source: CLAS

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	621.2	679.1	737.3	742.5
EBITDA	253.9	300.1	366.6	371.0
Deprec. & amort.	35.8	39.0	40.5	40.6
EBIT	218.2	261.0	326.1	330.5
Total other non-operating income	1.3	1.2	1.2	1.2
Associate contributions	3.9	(0.0)	0.0	0.0
Net interest income/(expense)	(67.5)	(81.9)	(91.7)	(97.6)
Pre-tax profit	259.8	183.5	235.6	234.0
Tax	(33.6)	(33.7)	(47.1)	(46.8)
Minorities	(2.9)	(4.5)	(3.6)	(0.6)
Preferred dividends	(13.5)	(13.4)	(13.5)	(13.5)
Net profit	209.8	131.9	171.4	173.1
Net profit (adj.)	105.8	128.7	171.4	173.1

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	7,434.2	7,916.3	8,011.5	8,106.7
Other LT assets	87.9	102.1	102.1	102.1
Cash/ST investment	363.6	350.6	365.5	337.3
Other current assets	138.0	131.4	146.6	147.4
Total assets	8,023.7	8,500.4	8,625.7	8,693.5
ST debt	401.7	685.7	685.7	685.7
Other current liabilities	269.6	256.3	287.9	289.6
LT debt	2,472.9	2,420.0	2,580.0	2,720.0
Other LT liabilities	434.7	413.1	404.4	394.5
Shareholders' equity	4,361.7	4,639.7	4,578.6	4,513.9
Minority interest	83.1	85.6	89.2	89.8
Total liabilities & equity	8,023.7	8,500.4	8,625.7	8,693.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	282.3	301.5	282.5	270.4
Pre-tax profit	259.8	183.5	235.6	234.0
Tax	(31.5)	(39.0)	(47.1)	(46.8)
Deprec. & amort.	35.8	39.0	40.5	40.6
Associates	(3.9)	0.0	0.0	0.0
Working capital changes	7.2	(11.5)	17.7	0.9
Non-cash items	(105.4)	14.2	28.5	28.8
Other operating cashflows	120.4	115.2	7.4	12.8
Investing	(308.8)	(545.0)	(95.0)	(95.0)
Capex (growth)	(286.7)	(563.8)	0.0	0.0
Capex (maintenance)	(23.3)	(45.0)	(95.0)	(95.0)
Proceeds from sale of assets	0.0	63.8	0.0	0.0
Others	1.2	0.0	0.0	0.0
Financing	71.2	230.5	(172.5)	(203.7)
Distribution to unitholders	(168.7)	(197.4)	(232.5)	(237.8)
Issue of shares	170.0	305.3	0.0	0.0
Proceeds from borrowings	1,646.8	231.1	160.0	140.0
Loan repayment	(1,481.0)	0.0	0.0	0.0
Others/interest paid	(96.0)	(108.6)	(100.0)	(105.9)
Net cash inflow (outflow)	44.7	(13.0)	15.0	(28.3)
Beginning cash & cash equivalent	346.3	363.6	350.6	365.5
Changes due to forex impact	(27.4)	0.0	0.0	0.0
Ending cash & cash equivalent	363.6	350.6	365.5	337.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	40.9	44.2	49.7	50.0
Pre-tax margin	41.8	27.0	32.0	31.5
Net margin	33.8	19.4	23.2	23.3
ROA	2.7	1.6	2.0	2.0
ROE	4.9	2.9	3.7	3.8
Growth				
Turnover	57.5	9.3	8.6	0.7
EBITDA	73.6	18.2	22.2	1.2
Pre-tax profit	(30.7)	(29.4)	28.4	(0.7)
Net profit	(29.1)	(37.1)	29.9	1.0
Net profit (adj.)	n.a.	21.6	33.1	1.0
EPU	n.a.	14.0	25.1	0.3
Leverage				
Debt to total capital	39.3	39.7	41.2	42.5
Debt to equity	65.9	66.9	71.3	75.4
Net debt/(cash) to equity	57.6	59.4	63.3	68.0
Interest cover (x)	3.8	3.7	4.0	3.8

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