

# CapitaLand Ascendas REIT (CAREIT SP)

## Front runner in the ESG race

### Highest ESG 2.0 score among industrial REITs

Under our expanded ESG 2.0 scoring, CAREIT attains an above-average score of 67 - the highest among industrial S-REITs. CAREIT has set ambitious targets validated by the Science Based Targets initiative, and well executed on its green financing and green certification goals. Disclosure on Scope 3 emissions and further improvements in board diversity could drive a higher score in our view. New-economy assets of SGD13.4b (81% of AUM) are set to underpin CAREIT's continued growth trajectory. Maintain BUY and DDM-based TP of SGD3.50 (COE: 6.2%, LTG: 2.0%).

### ESG in the right direction

We note CAREIT's consistent improvements in sustainability metrics. CAREIT has targeted to achieve a green rating for all owned and managed assets by 2030, and achieved a c.47%/30% in certifying managed/owned GFA by end-2021. In line with CapitaLand's 2030 Sustainability Master Plan, CAREIT is set to reduce Scope 1 and 2 GHG emissions by 78% by 2030 (vs. 2008 baseline), of which 54% has been realized. Nonetheless, further disclosure in Scope 3 GHG emissions from tenant energy consumption and third-party managed assets could help drive a higher score.

### Green financing instruments in its toolkit

CAREIT stands out to us as a green-financing champion among industrial S-REIT, with c.SGD1.2b (c.19% of its total borrowings of SGD6389m) funded via instruments such as green bonds, green loans and green perps in FY21. Its green financing instruments are subject to conditions that either limit loan proceeds to fund only green projects, or tag margins to CAREIT's ESG performance including ratings. Notably, performance on targets such as green certification, renewable energy and green financing forms part of management's remuneration appraisal.

### Strong balance sheet underpins growth

CAREIT has a solid balance sheet prudently managed with c.36.7% leverage, and c.2.1% cost of borrowing as of 1H22, after the addition of seven US logistics properties (for SGD133.2m at 5.3% NPI yield). CAREIT acquired 1 Buroh Lane cold storage in 3Q22 (for SGD191.9m at 7.0% NPI yield). We believe growth is well supported by its continued AUM expansion.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,049	1,227	1,310	1,350	1,385
Net property income	776	921	981	1,012	1,039
Core net profit	431	455	674	702	717
Core EPU (cts)	12.5	22.9	15.1	15.6	15.9
Core EPU growth (%)	(20.1)	83.3	(34.0)	3.3	2.0
DPU (cts)	14.7	15.3	15.9	16.5	16.8
DPU growth (%)	(2.5)	3.9	4.1	3.9	1.9
P/NTA (x)	1.3	1.2	1.1	1.1	1.1
DPU yield (%)	4.9	5.2	5.9	6.1	6.2
ROAE (%)	5.3	9.7	6.1	6.3	6.4
ROAA (%)	3.0	2.8	3.8	3.9	3.9
Debt/Assets (x)	0.31	0.34	0.34	0.35	0.35
Consensus DPU	-	-	15.9	16.3	16.7
MKE vs. Consensus (%)	-	-	(0.1)	1.5	0.5

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## BUY

Share Price	SGD 2.70
12m Price Target	SGD 3.50 (+35%)
Previous Price Target	SGD 3.50

### Company Description

Ascendas Real Estate Investment Trust engages in the investment in a portfolio of properties and property related assets.

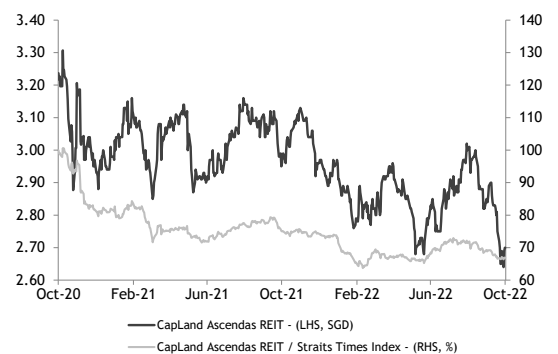
### Statistics

52w high/low (SGD)	3.13/2.64
3m avg turnover (USDm)	21.6
Free float (%)	82.0
Issued shares (m)	2,925
Market capitalisation	SGD7.9B
	USD5.5B

### Major shareholders:

Temasek	17.7%
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### Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(6)	(9)
Relative to index (%)	(3)	(7)	(11)

Source: FactSet

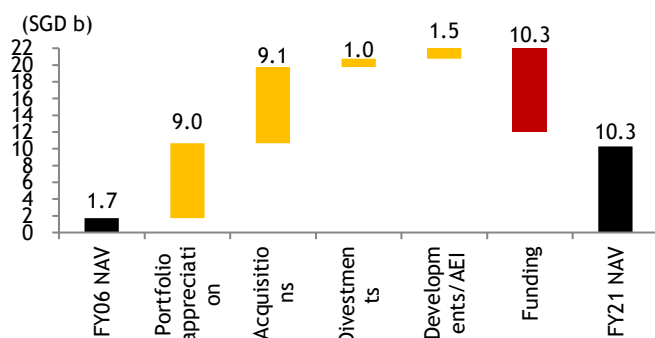
Note: CapitaLand Ascendas REIT (CAREIT SP) formerly known as Ascendas REIT (AREIT SP) with effect from 27 Sep,2022

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 Tear Sheet Insert

## Value Proposition

- Second largest listed S-REIT, and first and largest listed within the industrial sub-sector; backed by sponsor Ascendas-Singbridge, acquired by CapitaLand Investment (CLI) in Jul 2019, and now boasts SGD124b in AUM.
- Owns the largest new economy AUM among peers - business space & life sciences, logistics and data centres - together represent 81% of its SGD16.4b portfolio.
- Greater clarity on acquisition growth trajectory, with Australian, UK and US assets driving earnings visibility and Singapore properties entrenching business space footprint.
- Proactive portfolio reconstitution has strengthened its balance sheet. We expect management will endeavour to recycle capital into higher-yielding and newer assets.

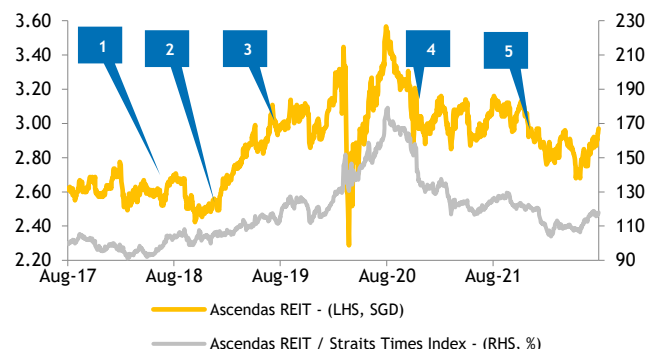
### NAV growth (FY06-21)



Source: Company

## Price Drivers

### Historical share price trend



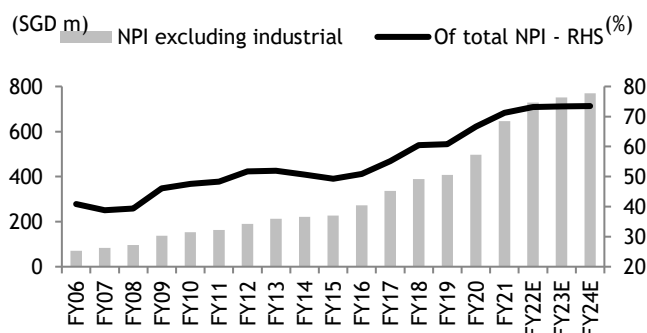
Source: Company, Maybank IBG Research

1. Jul-18: Announced acquisition of UK logistics portfolio for SGD373.2m at 5.3% NPI yield and plans to scale further into new developed markets.
2. Jan-19: CapitaLand announced acquisition of its sponsor for SGD11b, to result in a combined SGD116b AUM.
3. Nov-19: Announced acquisition of 28 US and 2 SG business park properties for SGD1.7b from sponsor at 6.5% NPI yield, partly funded by a SGD1.3b rights issue.
4. Nov 20: Raised SGD1.2b in new equity, a third to fund the acquisitions of two freehold Class A office properties in San Francisco at +2-3% pa rental escalations.
5. Nov-21: Announced plan to redevelop 1 Science Park Drive with CapitaLand Development into new innovation campus to projected 6.3% NPI yield.

## Financial Metrics

- DPUs for FY21-23E to be resilient given favourable logistics, business parks and hi-specs industrial exposure, and rising contribution from recent overseas acquisitions.
- NPI contribution from the business parks and hi-specs properties has outpaced growth in its broader asset portfolio.
- Overseas acquisitions to further diversify growth drivers from FY21-23E.

### NPI growth profile



Source: Company

## Swing Factors

### Upside

- Earlier-than-expected pick up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions.

### Downside

- Prolonged slowdown in economic activity could reduce demand for industrial space, resulting in lower occupancy and rental rates.
- Termination of long-term leases causing weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score <sup>1</sup>	11.8 (Low)
Score Momentum <sup>2</sup>	-2.6
Last Updated	04 Oct 2022
Controversy Score <sup>3</sup>	0 - No Reported Incident

## Business Model & Industry Issues

- CAREIT draws on its available pool of funds to invest in industrial real estate, carry out asset enhancements, and redevelop properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are closely regulated by the MAS under Singapore’s code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with strong representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- It has adopted the CapitaLand group’s 2030 Sustainability Master Plan, which was unveiled in 2020. It is intended that the SMP will be a dynamic blueprint, with its outlined goals, focus areas and targets that will be reviewed every two years.

### Material E issues

- 94 of its 220 properties (43% by GFA) are under operational control so covered as part of its sustainability reporting; 40 are BCA Green Mark certified, and it targets for all buildings to achieve a minimum green rating by 2030.
- Installed 36 additional EV charging points in Singapore, to a total of 76 across 16 properties, and owns 227 EV charging points globally in FY21 (from 138 in FY20).
- Increased solar panel installation footprint by 2% YoY to 11.4 GWh in FY21, and expected to commence its second phase of works in FY22.
- Starting to implement green leases for its Singapore assets. Has raised SGD1.5b in green financing to-date, accounting for c.23% of total borrowings (from c.7% in FY20).

### Material S issues

- Has grown its community-focused capacities with the expansion of its flexible workspace, while AELs have added collaborative spaces, gyms and end-of-trip facilities.
- CapitaLand provides each employee three days of volunteer service leave to encourage community service contribution; 82% volunteered in FY21 with over 480 hours dedicated (vs 269 hours in FY20).
- CapitaLand has implemented its building capabilities framework to upskill employees, which was rolled out globally in FY20. The average training hours rose to 22 in FY21 (from 17 in FY20).
- Gender diversity improved in FY21, with female representation at 60% (from 44% in FY20) but it declined at the management level to 40% (from 60%).

### Key G metrics and issues

- Externally managed by subsidiaries of sponsor CapitaLand Investment (CLI), which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high; it comprises eight members, five of whom including the Chairman are independent, with non-finance/ real estate backgrounds. The CEO is the only executive and non-independent board member.
- Revised computation of management fees (in FY15) in favour of unitholders, with base fee set at 0.5% of adjusted deposited property, and performance fee at 0.1% of adjusted deposited property if DPU growth >2.5% YoY and 0.2% if >5.0% YoY.
- The cumulative remuneration of its key management, including the CEO, has represented <0.9% of the REIT’s distributable income since it was first reported in FY17.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency.
- Has grown new economy assets to 81% of AUM as at end-2021 (from 68% at end-2016), helped by a record SGD2.1b of acquisitions completed in FY21.
- Has maintained a sound balance sheet with leverage <38% historically. Its AUM rose c.70% between from 2018-21 due to acquisitions, while leverage stayed low at 35.9% (as of end-Dec 2021) and below the 50% regulatory limit. Scored ‘A’ for public disclosure in the GRESB survey, and was ranked 3<sup>rd</sup> amongst 45 REITs and business trusts, on the Singapore Governance and Transparency Index 2021.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score:42)						
	Particulars	Unit	2019	2020	2021	MLT SP (2021)
E	Scope 1 GHG emissions	tCO2e	N/A	474	770	1341.1
	Scope 2 GHG emissions	tCO2e	N/A	49591	48764	11002.8
	<b>Total</b>	tCO2e	35467	50065	49535	12343.9
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	<b>Total</b>	tCO2e	N/A	50065	49535	12343.9
	GHG intensity (Scope 1 and 2)	kgCO2e/m2	16.29	23.51	21.70	2.37
	Energy intensity	kWh/sqm	51.64	57.38	55.79	6.2
	Renewable energy generated as % consumption	%	N/A	N/A	6.7	63.5
	Water intensity	m3/m2	0.49-0.97	0.53	0.51	0.102
	Share of recycled water use in operations	%	N/A	N/A	N/A	N/A
	Waste recycled	%	N/A	15.7	4.2	18.3
	Green financing as a % of total borrowing	%	N/A	13.1	19	16.1
	Green certified properties	number	31	34	40	5
	S	% of women in workforce	%	52	44	60
% of women in management roles		%	60	38.7	51.5	N/A
Work-related injury		number	24	18	22	0
Work-related fatality		number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	N/A	N/A	N/A	N/A
	Board salary as % of reported net profit	%	0.15	0.08	0.09	0.16
	Independent directors on the Board	%	67	62.5	62.5	58.3
	Female directors on the Board	%	22	12.5	12.5	33

Qualitative parameters (Score: 83)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes - as part of CapitaLand Investment Limited, it follows the group level 2030 Sustainability Master Plan. On trust level, it has a Sustainability Committee led by the CEO.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes - in FY21, sustainability KPIs were part of the Balanced Scorecard framework in Key Management Personnel's performance appraisals.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
d) Does the company do green leasing or has plans to start green leasing or participate in GRESB real estate assessment?	<i>Yes</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>It abides by the CLI sustainable policies. (1) Incorporates environment sustainability throughout all stages of any AEI, developments and redevelopments. (2) Biodiversity initiatives are being implemented across Ascends REIT's properties located in the UK and the US. (3) Ascends REIT works with a waste disposal term contractor in Singapore who operates a Materials Recovery Facility. Waste materials such as paper, plastics and metal are treated before being sold to manufacturers as recycled input materials.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce Scope 1 & 2 GHG emissions (tonnes) by 2030 vs 2008 baseline	78%	54%
Reduce energy intensity vs 2008 baseline	35%	43%
Increase % of renewable energy use in properties	35%	4.3%
Achieve a minimum green rating for all existing buildings	100%	48%
Reduce water consumption intensity	45%	52%
Improve recycling rate in its day-to-day operations	25%	8.1%
Annual ISO 14001 certification for Environmental Management System (EMS)	Maintain	Achieved
<b>Impact</b>		
NA		
<b>Overall score: 67</b>		
As per our ESG matrix, Capland Ascendas REIT (CAREIT) has an overall score of 67.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	42	21
Qualitative	25%	83	21
Target	25%	100	25
<b>Total</b>			<b>67</b>

CAREIT has a comprehensive ESG framework and established environmental policies. While CAREIT has shown firm commitments through green financing and green certification progress, we see room for improvement in its quantitative “S” and “G” performance, in areas such as workplace safety and gender diversity of board. Overall, CAREIT’s ESG score is 67, which makes its ESG rating above average in our view (average ESG rating = 50).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	20.3	19.3	17.0	16.4	16.1
P/BV (x)	1.3	1.2	1.1	1.1	1.1
P/NTA (x)	1.3	1.2	1.1	1.1	1.1
DPU yield (%)	4.9	5.2	5.9	6.1	6.2
FCF yield (%)	6.7	6.0	7.8	8.0	8.2
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	1,049.5	1,226.5	1,310.2	1,350.2	1,385.0
<b>Net property income</b>	<b>776.2</b>	<b>920.8</b>	<b>981.0</b>	<b>1,012.3</b>	<b>1,039.4</b>
Management and trustee fees	(77.3)	(100.9)	(109.9)	(111.6)	(113.2)
Net financing costs	(159.5)	(158.9)	(197.1)	(203.2)	(213.2)
Associates & JV	9.6	3.3	0.5	0.5	0.5
Exceptionals	(54.8)	365.5	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>494.2</b>	<b>1,029.8</b>	<b>674.5</b>	<b>698.0</b>	<b>713.5</b>
Income tax	(37.2)	(86.5)	(40.5)	(41.9)	(42.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Total return avail to unitholders</b>	<b>457.1</b>	<b>943.4</b>	<b>634.1</b>	<b>656.1</b>	<b>670.7</b>
Core net profit	430.6	455.3	674.3	701.8	716.7
Distributable inc to unitholders	538.4	630.0	667.6	694.7	709.5
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	278.0	368.5	275.3	282.3	289.5
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	14,577.4	17,144.4	17,390.9	17,638.7	17,887.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	112.4	35.2	35.2	35.2	35.2
Other assets	155.4	182.3	182.3	182.3	182.3
<b>Total assets</b>	<b>15,123.2</b>	<b>17,730.5</b>	<b>17,883.8</b>	<b>18,138.5</b>	<b>18,394.7</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	297.6	385.9	385.9	385.9	385.9
LT interest bearing debt	4,682.0	6,084.3	6,134.3	6,284.3	6,434.3
Other liabilities	953.1	983.0	983.0	983.0	983.0
<b>Total Liabilities</b>	<b>5,932.7</b>	<b>7,453.3</b>	<b>7,503.3</b>	<b>7,653.3</b>	<b>7,803.3</b>
Shareholders Equity	9,190.6	10,277.2	10,380.4	10,485.2	10,591.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>9,190.6</b>	<b>10,277.2</b>	<b>10,380.4</b>	<b>10,485.2</b>	<b>10,591.4</b>
<b>Total liabilities and equity</b>	<b>15,123.2</b>	<b>17,730.5</b>	<b>17,883.8</b>	<b>18,138.5</b>	<b>18,394.7</b>
<b>CASH FLOW (SGD m)</b>					
<b>Cash flow from operations</b>	<b>729.5</b>	<b>735.7</b>	<b>879.9</b>	<b>913.5</b>	<b>938.4</b>
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(889.8)	(1,884.4)	(150.0)	(150.0)	(150.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(95.6)	(30.3)	0.5	0.5	0.5
<b>CF from investing activities</b>	<b>(985.4)</b>	<b>(1,914.7)</b>	<b>(149.5)</b>	<b>(149.5)</b>	<b>(149.5)</b>
Dividends paid	(597.9)	(378.5)	(667.6)	(694.7)	(709.5)
Interest expense	(140.9)	(129.1)	(197.1)	(203.2)	(213.2)
Change in debt	51.9	1,377.9	50.0	150.0	150.0
Equity raised / (purchased)	1,165.4	407.1	(9.0)	(9.0)	(9.0)
Other financial activities	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>478.5</b>	<b>1,277.4</b>	<b>(823.6)</b>	<b>(757.0)</b>	<b>(781.7)</b>
<b>Effect of exchange rate changes</b>	<b>0.8</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>223.4</b>	<b>99.4</b>	<b>(93.2)</b>	<b>7.0</b>	<b>7.2</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.4	16.9	6.8	3.1	2.6
Net property income growth	19.5	18.6	6.5	3.2	2.7
Core net profit growth	(0.3)	5.8	48.1	4.1	2.1
Distributable income growth	10.9	17.0	6.0	4.1	2.1
<b>Profitability ratios (%)</b>					
Net property income margin	74.0	75.1	74.9	75.0	75.0
Core net profit margin	41.0	37.1	51.5	52.0	51.7
Payout ratio	117.8	66.8	105.3	105.9	105.8
<b>DuPont analysis</b>					
Total return margin (%)	43.6	76.9	48.4	48.6	48.4
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.7	1.7	1.7	1.7
ROAE (%)	5.3	9.7	6.1	6.3	6.4
ROAA (%)	3.0	2.8	3.8	3.9	3.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.4	2.4	2.4	2.4
Net gearing (%) (excl. perps)	47.9	55.6	56.4	57.2	58.0
Net interest cover (x)	4.4	5.2	4.4	4.4	4.3
Debt/EBITDA (x)	6.7	7.4	7.0	7.0	6.9
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	4,404.0	5,715.8	5,859.1	6,002.0	6,144.9
Debt/Assets (x)	0.31	0.34	0.34	0.35	0.35

Source: Company; Maybank IBG Research

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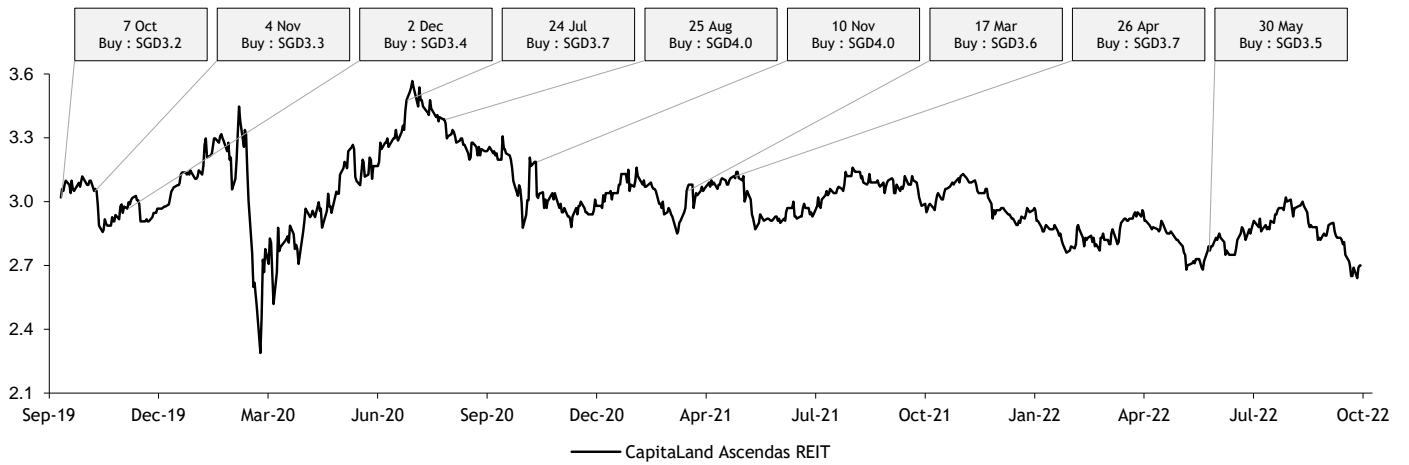
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