

BUY

Last Traded Price (5 Nov 2018): S\$1.02 (STI : 3,060.62)

Price Target 12-mth: S\$1.20 (18% upside)

Analyst

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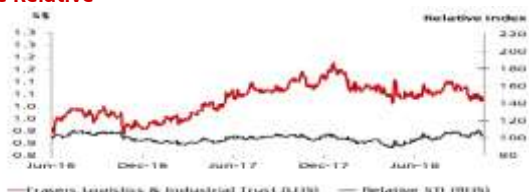
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What's New

- In-line 4Q18 results
- Long WALE of 6.8 years offers strong income visibility and certainty.
- Gearing of c.35% while optimal, empowers the REIT with >\$500m in potential debt-funded acquisitions
- Maintain BUY and TP of S\$1.20

Price Relative



Forecasts and Valuation

FY Sep (A\$m)	2017A	2018A	2019F	2020F
Gross Revenue	163	196	291	298
Net Property Inc	134	162	195	200
Total Return	97.8	179	126	130
Distribution Inc	102	118	141	145
EPU (S cts)	5.91	6.20	6.18	6.33
EPU Gth (%)	nm	5	0	2
DPU (S cts)	6.95	6.90	6.92	7.00
DPU Gth (%)	nm	(1)	0	1
NAV per shr (S cts)	87.6	94.9	94.2	93.5
PE (X)	17.3	16.5	16.6	16.2
Distribution Yield (%)	6.8	6.7	6.8	6.8
P/NAV (x)	1.2	1.1	1.1	1.1
Aggregate Leverage (%)	29.0	34.4	35.5	35.6
ROAE (%)	6.7	6.5	6.6	6.7

Distn. Inc Chng (%):	(2)	0	(1)
Consensus DPU (S cts):	7.36	6.96	7.06
Other Broker Recs:	B: 4	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Solid portfolio with resilient income

Maintain BUY and TP of S\$1.20. We maintain our BUY call and TP of S\$1.20. We like Fraser's Logistics & Industrial Trust (FLT) for its resilience in income and largely FH portfolio in Australia and Europe. With an expected 25% total return underpinned by a growing distribution yield of c.6.8%, we maintain our BUY call.

Where we differ: More conservative estimates than consensus but TP among the highest. Our estimates are more conservative than consensus. Portfolio gearing level is more optimal at c.35% but this still gives the Manager with flexibility to execute on more acquisitions. With the Manager now eyeing targets in Europe and Australia, we see greater opportunities to grow. The Sponsor has a pipeline of close to 1.2m sqm of industrial properties which can be injected in the medium term.

Steady organic growth. The REIT has a weighted average lease expiry of 6.8 years, which is longer than peers'. FLT has renewed most of its expiring leases in FY19F and has only 2.5% of its income up for renewal, implying strong cashflow visibility.

Valuation:

Our DCF-based TP stays at S\$1.20.

Key Risks to Our View:

Currency risk. As the Manager pays its distributions in SGD but earns in AUD, the REIT is exposed to currency fluctuations. The Manager attempts to reduce foreign fluctuations by hedging distributions regularly.

At A Glance

Issued Capital (m shrs)	2,007
Mkt. Cap (S\$m/US\$m)	2,047 / 1,496
Major Shareholders (%)	
Fraser's Prop Ind Trust	15.4
Nikko Asset Management	6.3
TCC Group Investments	5.9
Free Float (%)	78.7
3m Avg. Daily Val (US\$m)	2.6

ICB Industry : Financials / Real Estate Investment Trust



WHAT'S NEW

Another solid quarter

(+) Boosted by acquisitions. Fraser's Logistics & Industrial Trust (FLT) reported a 43.2% and 55.5% rise in revenues and net property income (NPI) to A\$60.4mm and A\$50.2m respectively. Adjusted NPI (reducing impact from straight-lining) rose by 52.6% to A\$49.3m. This mainly was on the back of an enlarged portfolio: (i) acquisition of European Acquisition (S\$13.2m), (ii) acquisition of 103-131 Wayne Goss Drive and a leasehold property in 3 Burda Close, Australia which collectively contributed A\$0.3m of the increase, (iii) acquisition of acquisitions completed in FY17 (A\$2.7m), and (iv) fixed rental escalations and early surrender fee from Lot 105 Springhill, NSW of S\$2.0m). The REIT also recorded a 71.6% rise in interest expenses incurred to part fund acquisitions resulting in a 35.6% rise in distributable income to S\$35.9m. This translates to a DPU of 1.78 Scts, which is 0.6% higher compared to a year ago due to an enlarged share base.

On a full-year basis, FLT's distributable income came in 16.6% higher y-o-y at S\$118.3m, on the back of a 20.1% and 24.6% rise in revenues and adjusted NPI of S\$195.8m and S\$155.4m respectively. A DPU of 7.19 Scts or 6.94 Australia cents is 2.6% higher y-o-y and -0.7% lower y-o-y respectively.

(+) Gearing level at more optimal level; significant headroom for growth remains. FLT reported a net revaluation gain of A\$72.4m in FY18 (A\$56.0 fair value gain on remeasurement of fair value for its portfolio in Australia and A\$16.4m for its European portfolio). This was largely due to a slight compression in cap rates in Australia with cap rates ranging 5.55%-9.04% in key cities in Australia, while gross yields in Germany and Netherlands remained stable at 4.10%-7.54% and 5.22%-6.37% respectively. As a result of the portfolio fair value gain, gearing dipped slightly to 34.6%, leaving the REIT with significant debt acquisition headroom of A\$585m to reach its 45% gearing limit.

The Manager has also hedged in 82% of its interest costs into fixed rates, mitigating the impact of potential interest rate fluctuations on distributions. Average borrowing costs remained stable at 2.5% with a weighted average debt maturity of 2.9 years.

(+) Stable reversions and long WALE. FLT signed and renewed two leases in 4QFY18, at an average rental reversion of -5.1%, with the dip largely driven by a -19.8% negative rental reversion

at 115-121 South Centre Road, Melbourne Airport where the Manager entered in a 10-year lease with Alternative Freight Services. The Manager also secured a 5-year extension at 55-59 Boundary Road, Queensland with Goodyear at a rental reversion of 3.9%. As of Sep 2018, FLT has a long WALE of 6.87 years (6.72 years in Australia and 8.17 years in Europe). Looking ahead, the Manager continues to see inorganic growth opportunities to build up its portfolio.

Outlook

Strong demand for industrial space in Australia; supply pick-up in Sydney and Melbourne to slow down the increase in rents.

Overall demand has remained robust, supported by infrastructure spending and growth of e-commerce in Australia. FLT's key markets Sydney and Melbourne remained robust with Industrial Prime Grade Net Face rents increasing by 4.4% and 2.0% to A\$136 psm p.a. and A\$93 psm p.a. respectively, supported by declining vacancy rates below historical levels, according to JLL and Urbis.

The high rents in Sydney have led to developers taking on speculative developments which will taper the rent growth momentum going forward. Similarly in Melbourne, as demand for industrial space continue to outstrip supply, developers are also taking on speculative developments, especially in the West. This is also expected to taper off in the medium term.

Brisbane – a turnaround at last? The Brisbane industrial market saw minimal completions with total annual supply below the long-term average. According to JLL, the market is stabilising given the falling vacancy rates. Rents started to stabilise at A\$111psm p.a., a slight increase from 3Q17.

Europe – demand remain resilient. In Germany, take-up remains resilient with take-up rates rising 26% y-o-y in 9M18, with rents inching higher to EUR 84 psm p.a. and users have turned to built-to-suit solutions. Given the strong demand, logistics assets continued to attract capital and this resulted in a compression in cap rates. In Netherlands, take-up rate dropped 35% y-o-y in 9M18 but rents continued to climb to EUR 9 psm p.a., driven by domestic demand and industrial output.

Frasers Logistics & Industrial Trust
Quarterly / Interim Income Statement (A\$m)

FY Sep	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Gross revenue	42.2	49.3	60.4	43.2	22.5
Property expenses	(9.9)	(8.2)	(10.3)	3.1	24.9
Net Property Income	32.3	41.1	50.2	55.5	22.1
Other Operating expenses	(3.7)	(4.1)	(5.7)	53.2	39.5
Other Non Opg (Exp)/Inc	0.03	(8.6)	(0.2)	nm	(97.6)
Net Interest (Exp)/Inc	(4.0)	(6.2)	(7.4)	(85.3)	(20.3)
Exceptional Gain/(Loss)	0.0	0.0	23.4	nm	nm
Net Income	24.6	22.2	60.3	145.3	171.3
Tax	(7.1)	(8.0)	(18.1)	156.3	126.3
Minority Interest	0.0	(0.1)	(0.8)	nm	416.3
Net Income after Tax	17.5	14.1	41.4	136.5	194.3
Total Return	29.0	31.8	96.1	231.7	202.3
Non-tax deductible Items	(2.5)	(1.1)	(62.2)	Nm	nm
Net Inc available for Dist.	26.5	30.7	36.0	35.6	17.2
Ratio (%)					
Net Prop Inc Margin	76.4	83.4	83.0		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Robust demand for logistics facilities in Australia. Heightened demand for logistics warehouses in Australia from Amazon is positive for FLT, in our view. We see in media reports that Amazon is seeking warehouses across the country to form a distribution hub, which presents an opportunity for FLT and FCL to capture, either directly or indirectly. While seen to be a disruptor to the traditional retail stores, we believe that FLT could benefit as we see possible spillover demand for quality and modern warehouse space once Amazon's operations ramp up. Given that the pipeline of new supply remains below its historical mean, we believe that market rents should remain on an uptrend.

Significant acquisition in Europe. FLT added Europe new leg of growth, acquiring 22 industrial properties located in Germany and the Netherlands (defined as "Europe") in FY18. These industrial properties are mainly modern logistics facilities located within major logistics clusters of Germany and the Netherlands which cater to core distribution needs of both countries. Post acquisition, we estimate that FLT will have c.33% of its top line in Europe, diversifying away from its single-country exposure in Australia. This allows the REIT to see more reliance across market cycles.

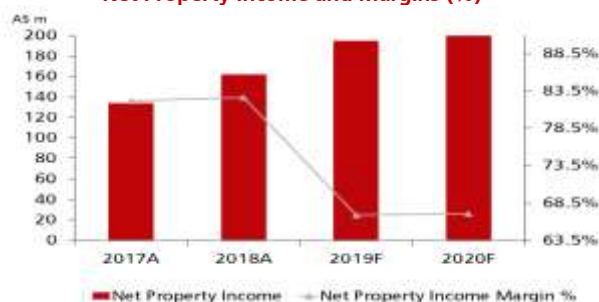
Long WALE of 6.8 years with inbuilt organic growth a key trait.

In our view, the long WALE by Adjusted Gross Rental Income of 6.8 years post acquisition of the Europe portfolio provides strong cashflow visibility which is a valued trait in current market volatility. In addition, FLT's organic growth is underpinned by inbuilt rental escalations. The fixed rental increments, which are built into the existing leases and range from 2.5-3.75%, offer an in-bedded steady growth profile.

Inorganic growth presents potential upside. One potential surprise to our/consensus estimates will come on the back of acquisitions, which FLT's Sponsor – Fraser's Property Limited (FPL) – is currently warehousing and could inject into the REIT at an appropriate time in the future. The Sponsor has over 1.2m sqm of industrial properties from Europe and Australia that could form a pipeline for the REIT.

Sensitivity to interest rates not a major concern. A weighted cost of 2.5% with 82% of the interest rates fixed implies that the REIT has substantially hedged its interest rate risk in the medium term. In addition, with no debt up for renewal till 2019, we see little risk to earnings on that front in the near term.

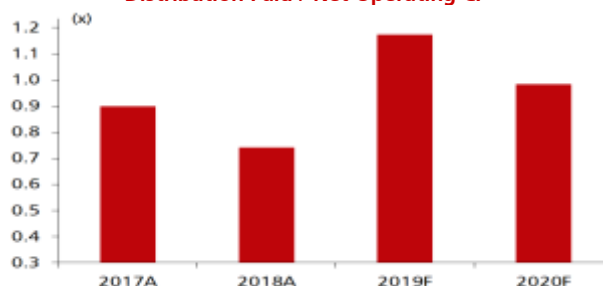
Net Property Income and Margins (%)



Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing up for acquisitions. Gearing is projected to inch up to c.35% in the medium term post acquisitions. The low gearing level offers significant headroom for the Manager to execute on opportunistic acquisitions.

Healthy financial metrics. The REIT has minimal debt expiries has a weighted average debt expiry of 2.9 years and average cost of borrowing of 2.5%. Interest coverage ratio remains healthy at c.7.1x. Close to 82% of the debt is hedged, implying minimal volatility to distributions in the event of an interest rate hike.

Share Price Drivers:

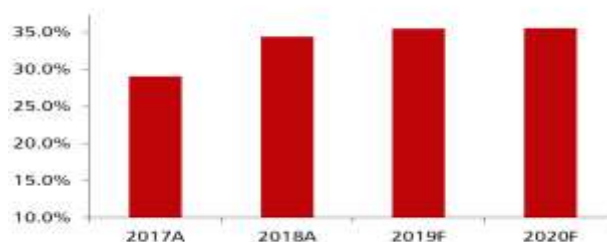
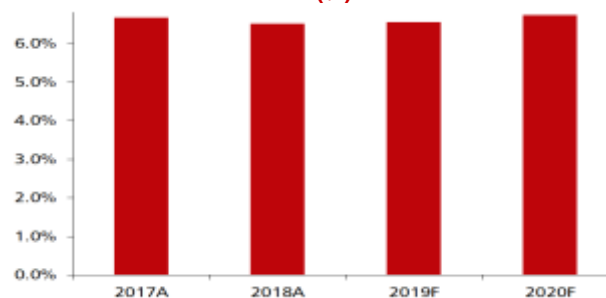
Executing on acquisitions. Post the completion of seven industrial properties in Australia, gearing remains undemanding at c.31%. Despite this, we believe that the portfolio remains under-gearred in relation to peers and its optimal level. With opportunities abounding in the market, we believe that the execution of more acquisitions, which are projected to be accretive to earnings, will be a catalyst for its stock price.

Key Risks:

Economic downturn in Australia and Europe. While FLT provides exposure to the Australian and European industrial markets, such exposure makes it susceptible to market fluctuations. However, this risk is mitigated by the diversification of its portfolio across five states in Australia and Europe with a long WALE offering income stability.

Company Background

FLT offers investors a unique opportunity to gain exposure to the growing industrial and logistics sectors in Australia and Europe. Fraser's Logistics & Industrial Trust (FLT) offers investors a unique opportunity to invest in a quality portfolio of industrial assets in Australia and Europe. FLT's initial portfolio consists of 83 properties spread across five states in Australia with an appraised value of A\$2.9bn as of Sep 2018.

Aggregate Leverage (%)**ROE (%)****PB Band (x)**

Source: Company, DBS Bank

Income Statement (A\$m)

FY Sep	2017A	2018A	2019F	2020F
Gross revenue	163	196	291	298
Property expenses	(29.1)	(34.0)	(96.6)	(98.2)
Net Property Income	134	162	195	200
Other Operating expenses	(14.0)	(17.1)	(21.1)	(21.4)
Other Non Opg (Exp)/Inc	1.20	(4.1)	0.0	0.0
Net Interest (Exp)/Inc	(16.1)	(22.5)	(31.0)	(31.7)
Exceptional Gain/(Loss)	0.0	23.4	0.0	0.0
Net Income	105	142	143	147
Tax	(18.7)	(34.4)	(15.7)	(16.1)
Minority Interest	0.0	(0.9)	(0.7)	(0.7)
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	86.3	106	126	130
Total Return	97.8	179	126	130
Non-tax deductible Items	3.74	(62.4)	15.1	15.3
Net Inc available for Dist.	102	118	141	145
Growth & Ratio				
Revenue Gth (%)	N/A	20.1	48.8	2.3
N Property Inc Gth (%)	nm	20.8	20.4	2.6
Net Inc Gth (%)	nm	23.2	18.7	2.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	99.0
Net Prop Inc Margins (%)	82.2	82.6	66.8	67.0
Net Income Margins (%)	52.9	54.3	43.3	43.6
Dist to revenue (%)	62.2	60.4	48.5	48.7
Managers & Trustee's fees	8.6	8.7	7.2	7.2
ROAE (%)	6.7	6.5	6.6	6.7
ROA (%)	4.6	4.2	4.1	4.1
ROCE (%)	5.4	4.4	5.0	5.1
Int. Cover (x)	7.4	6.4	5.6	5.6

Source: Company, DBS Bank

Driven from full-year contribution from Europe and recent acquisitions.

Quarterly / Interim Income Statement (A\$m)

FY Sep	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Gross revenue	42.2	42.4	43.6	49.3	60.4
Property expenses	(9.9)	(7.6)	(10.2)	(8.2)	(10.3)
Net Property Income	32.3	34.8	33.4	41.1	50.2
Other Operating expenses	(3.7)	(3.3)	(1.3)	(4.1)	(5.7)
Other Non Opg (Exp)/Inc	0.03	3.96	1.75	(8.6)	(0.2)
Net Interest (Exp)/Inc	(4.0)	(4.3)	(4.6)	(6.2)	(7.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	23.4
Net Income	24.6	31.1	29.3	22.2	60.3
Tax	(7.1)	(4.2)	(4.0)	(8.0)	(18.1)
Minority Interest	0.0	0.0	0.0	(0.1)	(0.8)
Net Income after Tax	17.5	27.0	25.2	14.1	41.4
Total Return	29.0	27.0	25.2	31.8	96.1
Non-tax deductible Items	(2.5)	(1.1)	0.62	(1.1)	(62.2)
Net Inc available for Dist.	26.5	25.9	25.9	30.7	36.0
Growth & Ratio					
Revenue Gth (%)	5	1	3	13	23
N Property Inc Gth (%)	(4)	8	(4)	23	22
Net Inc Gth (%)	(33)	54	(6)	(44)	194
Net Prop Inc Margin (%)	76.4	82.0	76.7	83.4	83.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (A\$m)

Balance Sheet (A\$M)				
FY Sep	2017A	2018A	2019F	2020F
Investment Properties	1,911	2,978	3,023	3,028
Other LT Assets	3.08	1.13	1.13	1.13
Cash & ST Invt	56.1	106	84.7	87.3
Inventory	0.0	0.0	0.0	0.0
Debtors	6.17	9.97	14.6	14.9
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	1,976	3,095	3,124	3,132
ST Debt	0.0	220	265	265
Creditor	41.3	40.4	14.6	14.9
Other Current Liab	4.66	6.89	15.7	16.1
LT Debt	574	845	845	850
Other LT Liabilities	18.7	39.7	39.7	39.7
Unit holders' funds	1,338	1,924	1,924	1,926
Minority Interests	0.0	18.9	19.6	20.3
Total Funds & Liabilities	1,976	3,095	3,124	3,132
Non-Cash Wkg. Capital	(39.8)	(37.3)	(15.7)	(16.1)
Net Cash/(Debt)	(518)	(959)	(1,025)	(1,027)
Ratio				
Current Ratio (x)	1.4	0.4	0.3	0.3
Quick Ratio (x)	1.4	0.4	0.3	0.3
Aggregate Leverage (%)	29.0	34.4	35.5	35.6
Z-Score (X)	2.0	2.0	2.0	2.0

Source: Company, DBS Bank

Frasers Logistics & Industrial Trust

Cash Flow Statement (A\$m)

FY Sep	2017A	2018A	2019F	2020F
Pre-Tax Income	105	142	143	147
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	(6.7)	(11.4)	(6.7)	(15.7)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.69	(5.3)	(30.6)	0.0
Other Operating CF	15.4	(1.0)	15.1	15.3
Net Operating CF	114	124	120	146
Net Invst in Properties	(1,577)	(490)	(45.0)	(5.0)
Other Invts (net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.67	0.0	0.0	0.0
Net Investing CF	(1,576)	(490)	(45.0)	(5.0)
Distribution Paid	(103)	(91.9)	(141)	(144)
Chg in Gross Debt	580	61.4	45.0	5.00
New units issued	1,060	470	0.0	0.0
Other Financing CF	(55.2)	(26.6)	0.0	0.0
Net Financing CF	1,483	412	(96.3)	(139)
Currency Adjustments	(50.9)	3.58	0.0	0.0
Chg in Cash	(29.7)	49.6	(20.9)	2.60
Operating CFPS (\$ cts)	7.78	7.54	7.39	7.13
Free CFPS (\$ cts)	(100)	(21.4)	3.69	6.89

Acquisition of property
in Netherlands

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 18	1.14	1.22	BUY
2:	13 Apr 18	1.06	1.22	BUY
3:	26 Jun 18	1.05	1.20	BUY
4:	05 Jul 18	1.04	1.20	BUY
5:	03 Sep 18	1.09	1.20	BUY
6:	05 Nov 18	1.02	1.20	BUY

Source: DBS Bank

Analyst: Derek TAN

Mervin SONG, CFA

Carmen Tay

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 7 Nov 2018 16:42:17 (SGT)

Dissemination Date: 7 Nov 2018 17:02:45 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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