

Singapore Flash Note

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DBS Group Research . Equity

25 Mar 2020

ESR-REIT (EREIT SP) : **BUY**

Mkt. Cap: US\$675m | **3m Avg. Daily Val:** US\$3.9m

Last Traded Price (24 Mar 2020): S\$0.28

Price Target 12-mth: S\$0.59 (112% upside) (Prev S\$0.59)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

[ESR-REIT - iBanking Login](#)

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Enough Selling al-Ready!

- Interest expense savings from early refinancing; no refinancing in 2020
- Earnings relatively sheltered for now; retail tenants facing more challenges
- Long-term goals still intact despite a pause in near-term inorganic growth plans

Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Gross Revenue	253	275	279	281
Net Property Inc	188	200	203	204
Total Return	0.0	131	134	135
Distribution Inc	133	138	141	142
EPU (S cts)	2.75	3.72	3.78	3.79
EPU Gth (%)	2,615	35	1	0
DPU (S cts)	4.01	3.92	3.97	3.99
DPU Gth (%)	4	(2)	1	0
NAV per shr (S cts)	43.0	42.5	42.1	41.7
PE (X)	10.2	7.5	7.4	7.4
Distribution Yield (%)	14.3	14.0	14.2	14.2
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	43.8	43.9	44.1	44.2
ROAE (%)	6.1	8.7	8.9	9.0

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

What's New

We just hosted an investors' call earlier this afternoon with ESR REIT to get an update on how the current COVID-19 situation has affected its operations. There was quite a healthy turnout with almost 40 participants dialing in and many questions revolved around how tenants are being affected by COVID-19 and updates on the recent sell-off in ESR REIT's shares.

The call was timely given that ESR REIT's share price has fallen 55% since the start of the year, before staging a 17% daily rebound today!

Mitigating impact of COVID-19 on operations.

Nil refinancing in 2020.

- Having already done an early refinancing of borrowings due in FY20, ESR REIT will not have any refinancing risk for the rest of this year.
- 100% of the portfolio is unencumbered currently; ESR REIT will have the flexibility to negotiate secured financing if necessary.
- It may be difficult to take on new financing given current market conditions, but refinancing should not be an issue.

No major arrears; earnings relatively sheltered.

- Approximately 2% of tenants are late on their rental payments on average and remains in this range currently.
 - Will put some planned AEs on hold for now but works at UE BizHub and 7000 Ang Mo Kio Ave 5



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will continue (albeit at a possibly slower rate at Ang Mo Kio).

- Based on worst-case scenario sensitivity analysis, earnings will drop c.S\$40m if all expiring leases this year are not renewed and there are no new leases signed (still represents an implied c.12% dividend yield).
- In fact, leasing activities in the first two months of FY20 have been very encouraging; approximately 2% of the portfolio has been renewed so far and rental reversions remain flat.
- Do not expect portfolio to be too adversely affected; only experienced a c.3% decline in portfolio valuation during GFC in 2008-2009.
- 4.1% of leases that are expiring in FY20 are from four single-tenanted assets on master leases.
 - One has renewed its master lease.
 - Two have already been converted into multi-tenancies; average occupancy of 94% currently.
 - One has been identified as a non-core asset and has been put up for sale.

Retail tenants are most affected

- Retail (and F&B) clients make up approximately 7.5% of Gross Rental Income.
- So far only some of these retail tenants have come forward to ask for rental rebates; ESR REIT will pass on government property tax rebates to these retail tenants.
- Industrial tenants have not asked for any rental rebates at this point.
- The convention hall and hotel component at UE Bizhub is on a master lease with UE, and ESR REIT will receive a fixed contribution from the master lease and thus will not be impacted in terms of cash flows.

Long-term goals still intact

Stronger financing position.

- Expect further savings in borrowings once the bonds due in April/May FY20 are redeemed.
 - Will be refinanced with a loan facility that has been committed.
 - Projected interest savings of c.S\$1.7m in FY20 once the bonds are redeemed.

Will put on hold M&A activities for now

- But long-term goal to expand overseas and extend portfolio land lease expiry remains.
- Recent sharp sell-offs possibility due to margin-calls on investors.
 - Most of its major shareholders remain the same; one major shareholder has only decreased his holdings by 1% (not too significant and should be strategic in nature as this shareholder has an ownership stake in the Manager as well).

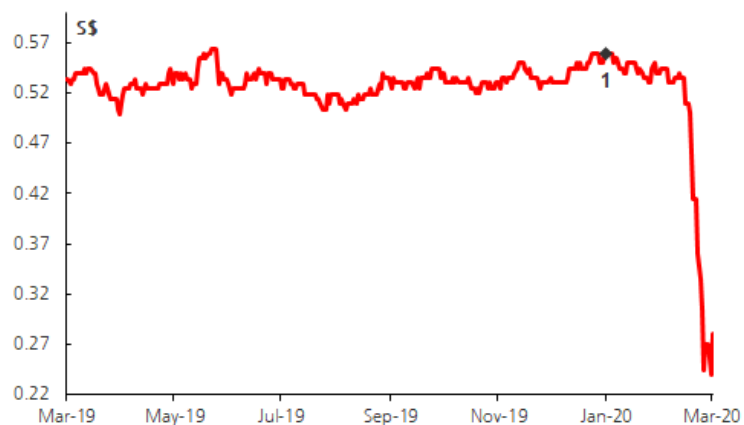
We continue to like ESR REIT for its proactive management of its portfolio and operations. Despite the relatively high gearing of 41.5% currently, there is no refinancing risk in FY20, and there would be interest expense savings from 2Q20 onwards. About 2% of the 13.5% of leases expiring this year have already been renewed and we take comfort in the flat rental reversions especially in the current turbulent economic landscape. For single-tenanted assets (4.1% of expiries in FY20), three out of four assets have been repositioned, and the remaining asset will be divested.

Lastly, it is the financial might and support of a strong Sponsor that will help names like ESR REIT stand out in times of uncertainty. In fact, ESR Cayman (the Sponsor), just increased its stake in AIMS APAC REIT by c.S\$13m last week.

At current prices, the implied FY20 dividend yield is approximately 14%. We maintain our **BUY** call with a TP of **S\$0.59**.

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Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jan 20	0.56	0.59	BUY

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

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

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DBS Bank recommendations are based on an 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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