

# Singapore Company Update Fraser's Logistics & Commercial Trust

Bloomberg: FLT SP | Reuters: FRAE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Sep 2020

## BUY

Last Traded Price (24 Sep 2020): S\$1.42 (STI : 2,450.82)

Price Target 12-mth: S\$1.85 (30% upside) (Prev S\$1.60)

### Analyst

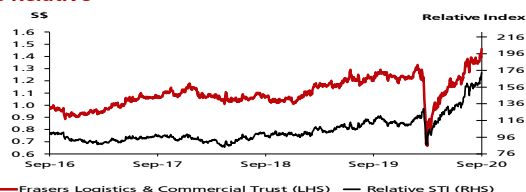
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### What's New

- Pricing in S\$600m of accretive acquisitions in FY21; supported by ROFR pipeline of more than S\$5.0bn
- Healthy gearing of 37.4% and debt headroom of c.S\$1.6bn conducive for further growth
- Undemanding valuations; DPU growth of more than 5% is higher than large-cap peers
- Maintain BUY with a higher TP of S\$1.85

### Price Relative



### Forecasts and Valuation

FY Sep (\$m)	2019A*	2020F	2021F	2022F
Gross Revenue	241	348	440	492
Net Property Inc	199	281	356	398
Total Return	226	172	231	258
Distribution Inc	150	209	264	296
EPU (\$ cts)	4.59	5.04	6.73	7.20
EPU Gth (%)	(26)	10	33	7
DPU (\$ cts)	7.27	7.16	7.67	7.96
DPU Gth (%)	5	(2)	7	4
NAV per shr (\$ cts)	102	106	106	107
PE (X)	30.9	28.2	21.1	19.7
Distribution Yield (%)	5.1	5.0	5.4	5.6
P/NAV (x)	1.4	1.3	1.3	1.3
Aggregate Leverage (%)	33.2	37.3	37.2	37.4
ROAE (%)	4.9	5.8	6.4	6.8

Distr. Inc Chng (%)	0	3	14
Consensus DPU (\$ cts)	7.50	7.60	7.70
Other Broker Recs:	B: 5	S: 1	H: 1

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

\* FY19A figures are reported in A\$. FLCT has changed its reporting currency to S\$ after the completion of the merger with FCOT in April 2020.



### Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

## The pipeline others can only dream of

### Investment Thesis

**Pricing in higher growth in FY21.** Having been on the growth trajectory over the past few years, we believe that Fraser's Logistics & Commercial Trust (FLCT), given its enlarged portfolio, can continue to dream big. We have assumed S\$600m (c.10% of AUM) of acquisitions by the end of FY21. We maintain our BUY call and raise our TP to S\$1.85.

**Cheapest large-cap logistics REIT in Singapore.** With a higher TP of S\$1.85, FLCT's target yields are 4.1-4.3% for FY21F-FY22F, which is fair given its substantially freehold portfolio. In our view, there is room for further compression if we compare FLCT to its large-cap peers, such as AREIT and MLT trading at target yields of 3.5-4.0%.

### ROFR pipeline from Sponsor is worth more than S\$5.0bn.

Despite acquiring more than S\$300m worth of assets from its Sponsor in the last five months, FLCT still has the largest ROFR pipeline that could double its portfolio, a visibility like no other.

### Valuation:

Our DCF-based TP is raised to S\$1.85 as we assume S\$600m of acquisitions by the end of FY21 and a higher SGDAUD exchange rate of 0.97 (compared to 0.96 previously).

### Where we differ:

**Exploring development projects.** With a significantly larger portfolio (c.S\$6.0bn), FLCT has the capacity to undertake development projects or redevelopment of older assets that could drive upside to earnings in the longer-term.

### Key Risks to Our View:

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

### At A Glance

Issued Capital (m shrs)	3,413
Mkt. Cap (S\$m/US\$m)	4,847 / 3,522
Major Shareholders (%)	
Fraser's Prop Ind Trust Hlds Pl	22.1
Rojana Industrial Park PCL	4.2
Free Float (%)	73.7
3m Avg. Daily Val (US\$m)	10.0
GIC Industry : Real Estate / Equity Real Estate	



Live more, Bank less

## WHAT'S NEW

### The pipeline others can only dream of

#### FLCT's portfolio has grown more than three times in three years

Over the last three years, FLCT has more than tripled its AUM. FLCT's acquisitions were mainly from its Sponsor's pipeline. In this period, FLCT's portfolio grew at a CAGR of c.47%. Even if we do not include the S\$2.2bn merger with FCOT, FLCT's portfolio still grew significantly at a CAGR of c.26%.

In FY18, FLCT acquired a portfolio of 21 properties in Germany and the Netherlands, followed by another two in Australia for a total of c.S\$1.0bn. In FY19, FLCT announced the acquisition of a portfolio of 12 properties in Germany and Australia for c.S\$620m. To-date in FY20, FLCT has completed c.S\$2.5bn worth of M&As (\$2.2bn pertains to the merger with FCOT).

#### More than S\$300m in acquisitions in the last five months.

Since FLCT's successful merger with FCOT, it has made three acquisitions worth more than S\$300m in a span of less than five months. The acquisitions include:

- i) 50% stake in Farnborough Business Park, UK (\$\$157.7m)
- ii) Maxis Business Park, UK (\$\$121.0m)
- iii) IVE Facility, Australia (\$\$22.2m)

#### ROFR pipeline from Sponsor in excess of S\$5.0bn remains

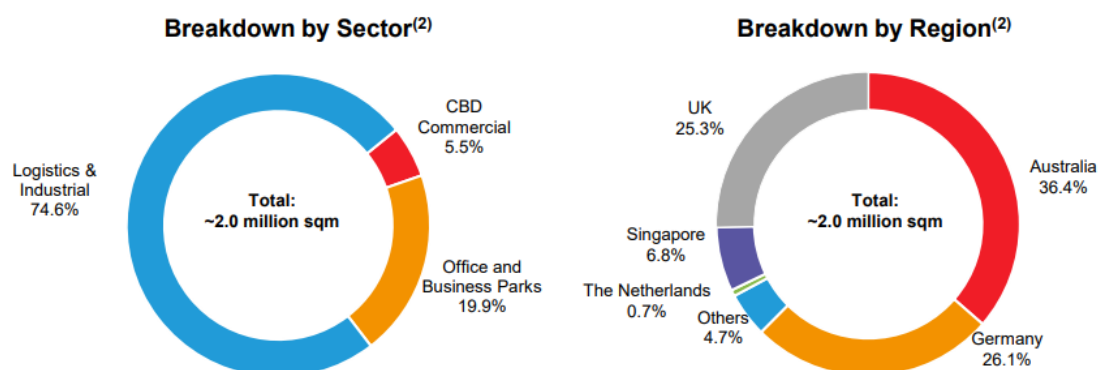
**Largest ROFR pipeline among S-REITs.** Having already acquired more than S\$300m of properties from its Sponsor, FLCT still has a pipeline worth more than S\$5.0bn, the largest among S-REITs. The pipeline includes a good mix of assets in Australia, Europe, UK, Singapore and rest of Asia. Approximately 75% of the pipeline (by NLA) is logistics and industrial properties, while the rest is made up of commercial buildings and business parks.

The breakdown of the pipeline assets includes:

- iv) Australia – c.40 logistics/industrial and office properties valued at more than S\$1.4bn.
- v) Europe – c.25 logistics/industrial properties valued at approximately S\$900m; pipeline is mainly in Germany
- vi) UK – 4 business parks valued at c.S\$1.2bn
- vii) Singapore – 4 office/business park properties valued at c.2.0bn

As a large portion of the pipeline are logistics/industrial assets and majority are overseas, we expect their yields to be accretive for FLCT. For example, FLCT's most recent acquisition of a logistics property in Australia and business park in the UK were purchased at yields of 5.9-6.3%.

#### Diversified ROFR pipeline from Sponsor is valued at more than S\$5.0bn



1. Comprises completed income-producing real estate (i) used for logistics or industrial purposes and located globally, and such real estate assets used for "logistics" or "industrial" purposes may also include office components ancillary to the foregoing purposes, or (ii) used for commercial purposes (comprising primarily office space in a Central Business District ("CBD office space")) or business park purposes (comprising primarily non-CBD office space and/or research and development space) and located in the Asia Pacific region or in Europe (including the United Kingdom). 2. By lettable area as at 30 June 2020. Excludes Maxis and the IVE Facility.

Source: Fraser's Logistics & Commercial Trust

### Pricing in further expansion in portfolio

**Portfolio expansion assumed at 10%.** Given that FLCT's portfolio has grown at a CAGR of c.47% over the last three years, we have priced in S\$600m of acquisitions for FY21, which is in line with an average acquisition momentum of c.10% of its portfolio AUM annually. In our view, we believe that c.10% growth in portfolio is achievable especially given FLCT's large ROFE pipeline from its Sponsor and that logistics properties will continue to remain attractive in a post COVID-19 world, supported by robust demand from e-commerce. We have thus assumed that the acquisitions will be funded by 40% debt and 60% equity, at a conservative yield of 5.5%. As we have assumed the acquisitions will be completed by the end of FY21, the implied DPU yield for FY22F is 4.3% based on our revised TP of S\$1.85.

**Debt headroom of c.S\$1.6bn conducive for growth.** With a healthy aggregate leverage of only c.37%, FLCT has debt headroom of c.S\$1.6bn. The ample debt headroom is conducive for our assumed S\$600m of acquisitions, and there could be accretion upside if FLCT utilises more debt than we have projected. Moreover, interest rates are expected to remain low in the medium-term, and FLCT would benefit from savings in finance expenses going forward.

### Assumed acquisitions well within reach

We continue to like FLCT given its robust portfolio metrics post consolidation. In 3QFY20, FLCT reported healthy portfolio occupancy of 97.2% with only 1.0% of leases due to expire in 4QFY20. The bulk of the vacancies are from its newly refurbished Cross Street Exchange, and we expect occupancy at the property to improve as we get past the ongoing COVID-19 pandemic.

Our assumed acquisitions of S\$600m in FY21F is well within FLCT's reach as it continues to have a ROFR pipeline worth more than S\$5.0bn from its Sponsor, offering a strong visibility of continued inorganic growth in the coming years. In addition to the c.S\$1.4bn of pipeline assets in Australia, we

believe that acquisitions in the near-term could come from Germany (worth c.S\$750m) and the UK (worth c.S\$1.2bn).

**Forward yields are justified for a large-cap industrial S-REIT.** At our revised TP of S\$1.85, the implied target DPU yields for FY21 and FY22 are 4.1% and 4.3% respectively. In our view, the target yield is justified by FLCT's enlarged market capitalisation post-merger with FCOT. At a market capitalisation of c.S\$4.8bn currently, we believe that FLCT should be trading at a yield that is similar to its large-cap peers such as AREIT and MLT which are trading at forward yields of 3.5-4.0%. Moreover, FLCT's share price is up 15% year-to-date but has underperformed its industrial large-cap S-REIT peers who have returned an average of 21%.

### Our views

We acknowledge that FLCT's commercial portfolio may face some near-term pressures from the ongoing COVID-19 pandemic, but the impact is mitigated from recently acquired properties and from annual rental escalations. We note that FLCT's logistics and industrial properties, which make up c.60% of its portfolio, continues to enjoy very strong occupancy of 99.8%, and the average annual rental escalations of between 2-4% will help mitigate any near-term weaknesses. Moreover, FLCT's largest commercial property, Cross Street Exchange, is still going through its first cycle of lease renewals since its refurbishment and we expect the property to record positive rental reversions in addition to an improvement in occupancy.

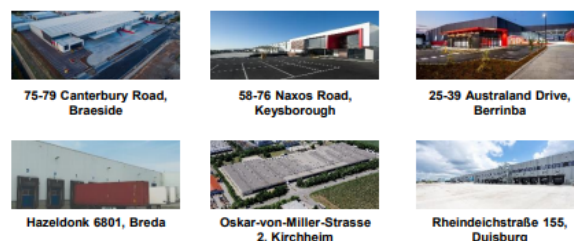
We maintain our **BUY** recommendation with a higher TP of **S\$1.85**. We have raised our DCF-based TP as we assume S\$600m in acquisitions in FY21 and a higher SGDAUD exchange rate of 0.97 (compared to 0.96 previously). FLCT trades at an undemanding valuation for a large-cap industrial REIT with the largest ROFR pipeline from its Sponsor and the longest portfolio land tenure. There is upside risk to our forecast and TP if the assumed acquisitions are completed sooner-than-expected and/or acquisition yields are higher-than-projected.

### Some of the more notable ROFR pipeline from FLCT's Sponsor

#### Commercial, Office and Business Parks



#### Logistics & Industrial

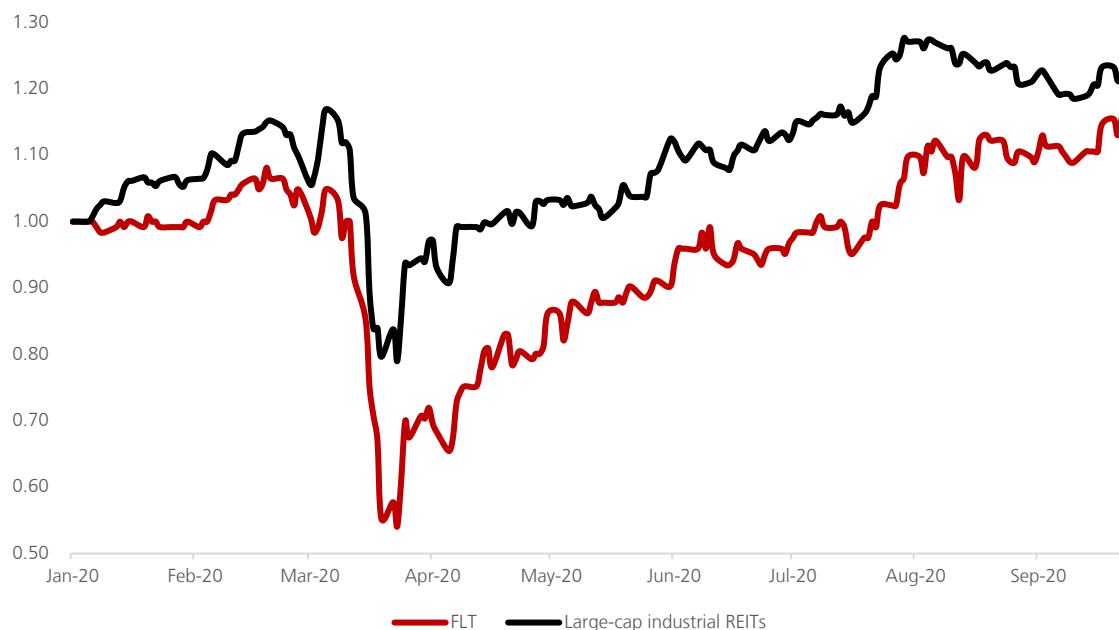


Source: Fraser's Logistics & Commercial Trust

### Company Background

FLCT offers investors the opportunity to invest in prime logistics and commercial properties strategically located within five major developed markets. FLCT currently manages 99 properties across Australia, Singapore, Germany, the UK, and the Netherlands, totalling c.2.6m sqm. The appraised value of FLCT's portfolio was S\$6.0bn as of 30 June 2020.

### Relative share price performance



Source: Bloomberg Finance L.P., DBS Bank estimates

## Valuation table

REIT	Price	Rec	12-mth Target Price	Mkt Cap (\$'bn)	Yield (FY19/20)	Yield (FY20/21)	Yield (FY21/22)	Yield (FY22/23)	1-year growth
<b>Industrial large caps</b>									
Ascendas REIT	3.22	BUY	4.00	12.2	5.0%	4.7%	5.0%	5.1%	8.3%
Mapletree Industrial Trust	3.20	BUY	3.25	7.3	3.8%	3.7%	4.0%	4.2%	6.5%
Mapletree Logistics Trust	2.01	BUY	2.20	7.9	4.1%	4.1%	4.2%	4.2%	3.2%
Keppel DC REIT	3.00	HOLD	2.80	4.8	2.5%	3.0%	3.3%	3.5%	11.5%
Fraser's Logistics & Commercial Trust	1.42	BUY	1.85	4.8	4.9%	5.2%	5.3%	5.3%	2.9%
<b>Average large cap S-REITs</b>					<b>4.1%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>4.5%</b>	<b>6.5%</b>
<b>Industrial mid caps</b>									
Ascendas India Trust	1.35	BUY	1.85	1.5	4.8%	6.8%	7.7%	8.2%	13.0%
ESR REIT	0.39	BUY	0.43	1.4	10.4%	7.4%	8.3%	8.3%	12.2%
ARA LOGOS Logistics Trust	0.63	BUY	0.70	0.1	9.7%	7.7%	7.9%	8.2%	3.0%
Soilbuild Business Space REIT	0.50	BUY	0.50	0.5	8.4%	7.4%	7.5%	0.0%	1.9%
AIMS APAC REIT	1.19	BUY	1.40	1.4	8.0%	7.5%	8.2%	8.3%	8.6%
<b>Average mid cap S-REITs</b>					<b>8.3%</b>	<b>7.3%</b>	<b>7.9%</b>	<b>6.6%</b>	<b>7.8%</b>
<b>Average industrial S-REITs</b>					<b>6.2%</b>	<b>5.7%</b>	<b>6.1%</b>	<b>5.5%</b>	<b>7.1%</b>

Source: Bloomberg Finance L.P., DBS Bank estimates

## Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Income Statement (\$\$m)

FY Sep	2018A	2019A	2020F	2021F	2022F
Gross revenue	196	241	348	440	492
Property expenses	(34.0)	(41.4)	(66.1)	(83.7)	(93.5)
<b>Net Property Income</b>	<b>162</b>	<b>199</b>	<b>281</b>	<b>356</b>	<b>398</b>
Other Operating expenses	(17.1)	(22.7)	(45.5)	(42.0)	(48.1)
Other Non Opg (Exp)/Inc	(4.1)	(1.2)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(22.5)	(26.7)	(43.2)	(55.8)	(61.8)
Exceptional Gain/(Loss)	23.4	1.65	0.0	0.0	0.0
<b>Net Income</b>	<b>142</b>	<b>150</b>	<b>193</b>	<b>258</b>	<b>288</b>
Tax	(34.4)	(44.5)	(19.3)	(25.8)	(28.8)
Minority Interest	(0.9)	(2.3)	(1.2)	(1.2)	(1.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>106</b>	<b>104</b>	<b>172</b>	<b>231</b>	<b>258</b>
Total Return	179	226	172	231	258
Non-tax deductible Items	(62.4)	(80.0)	37.1	32.7	38.3
Net Inc available for Dist.	118	150	209	264	296
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	20.1	23.0	44.4	26.6	11.7
N Property Inc Gth (%)	20.8	23.2	41.2	26.6	11.7
Net Inc Gth (%)	23.2	(2.5)	66.3	34.3	11.6
Dist. Payout Ratio (%)	100.0	100.0	97.0	100.0	100.0
Net Prop Inc Margins (%)	82.6	82.8	81.0	81.0	81.0
Net Income Margins (%)	54.3	43.0	49.6	52.6	52.5
Dist to revenue (%)	60.4	62.2	60.2	60.0	60.3
Managers & Trustee's fees	8.7	9.4	13.1	9.5	9.8
ROAE (%)	6.5	4.9	5.8	6.4	6.8
ROA (%)	4.2	3.0	3.5	3.8	4.1
ROCE (%)	4.4	3.7	4.4	4.7	5.0
Int. Cover (x)	6.4	6.6	5.5	5.6	5.7

Driven by assumed acquisitions of S\$600m by end-FY21.

Source: Company, DBS Bank

## Quarterly / Interim Income Statement (\$\$m)

FY Sep	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Gross revenue	59.7	60.0	61.6	64.4	67.3
Property expenses	(10.7)	(11.1)	(11.1)	(9.0)	(10.2)
Net Property Income	49.0	48.9	50.5	55.4	57.1
Other Operating expenses	(5.5)	(4.9)	(5.8)	(7.7)	(4.0)
Other Non Opq (Exp)/Inc	3.19	(4.5)	1.54	(1.8)	2.44
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(7.0)	(6.8)	(5.7)	(7.3)	(7.7)
Exceptional Gain/(Loss)	0.0	1.65	0.0	0.62	0.0
<b>Net Income</b>	<b>39.7</b>	<b>34.4</b>	<b>40.6</b>	<b>39.3</b>	<b>47.9</b>
Tax	(5.7)	(9.5)	(23.4)	(5.5)	(6.0)
Minority Interest	(0.3)	(0.3)	(1.3)	(0.4)	(0.6)
<b>Net Income after Tax</b>	<b>33.6</b>	<b>24.6</b>	<b>15.8</b>	<b>33.5</b>	<b>41.3</b>
Total Return	33.6	45.4	117	33.5	41.3
Non-tax deductible Items	3.27	(8.4)	(81.9)	7.99	1.76
Net Inc available for Dist.	36.9	36.9	39.3	41.4	43.1
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	0	0	3	5	4
N Property Inc Gth (%)	(3)	0	3	10	3
Net Inc Gth (%)	14	(27)	(36)	112	24
Net Prop Inc Margin (%)	82.1	81.5	81.9	86.1	84.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

## Balance Sheet (\$\$m)

FY Sep	2018A	2019A	2020F	2021F	2022F
Investment Properties	2,978	3,554	5,844	5,858	6,463
Other LT Assets	1.13	2.12	2.04	2.04	2.04
Cash & ST Invts	106	128	134	127	127
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	9.97	16.2	18.1	22.9	25.5
Other Current Assets	0.0	18.0	17.3	17.3	17.3
<b>Total Assets</b>	<b>3,095</b>	<b>3,719</b>	<b>6,015</b>	<b>6,027</b>	<b>6,634</b>
ST Debt	220	206	198	198	198
Creditor	40.4	53.2	18.1	22.9	25.5
Other Current Liab	6.89	11.5	19.3	25.8	28.8
LT Debt	845	1,030	2,043	2,043	2,283
Other LT Liabilities	39.7	75.6	72.8	72.8	72.8
Unit holders' funds	1,924	2,314	3,634	3,634	3,994
Minority Interests	18.9	28.9	29.0	30.3	31.5
<b>Total Funds &amp; Liabilities</b>	<b>3,095</b>	<b>3,719</b>	<b>6,015</b>	<b>6,027</b>	<b>6,634</b>
Non-Cash Wkg. Capital	(37.3)	(30.5)	(2.0)	(8.5)	(11.5)
Net Cash/(Debt)	(959)	(1,107)	(2,108)	(2,114)	(2,355)
<b>Ratio</b>					
Current Ratio (x)	0.4	0.6	0.7	0.7	0.7
Quick Ratio (x)	0.4	0.5	0.6	0.6	0.6
Aggregate Leverage (%)	34.4	33.2	37.3	37.2	37.4
Z-Score (X)	2.0	2.0	1.7	1.7	1.7

Source: Company, DBS Bank

## Cash Flow Statement (\$m)

FY Sep	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	142	150	193	258	288
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(11.4)	(15.9)	(10.0)	(19.3)	(25.8)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(5.3)	(14.2)	(36.6)	0.0	0.0
Other Operating CF	(1.0)	37.1	37.1	32.7	38.3
<b>Net Operating CF</b>	<b>124</b>	<b>158</b>	<b>183</b>	<b>272</b>	<b>301</b>
Net Invst in Properties	(490)	23.8	(2,425)	(14.0)	(605)
Other Invts (net)	0.0	(13.3)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(5.9)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(490)</b>	<b>4.54</b>	<b>(2,425)</b>	<b>(14.0)</b>	<b>(605)</b>
Distribution Paid	(91.9)	(125)	(203)	(264)	(296)
Chg in Gross Debt	61.4	43.4	1,052	0.0	240
New units issued	470	274	1,402	0.0	360
Other Financing CF	(26.6)	(28.9)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>412</b>	<b>164</b>	<b>2,251</b>	<b>(264)</b>	<b>304</b>
Currency Adjustments	3.58	1.23	0.0	0.0	0.0
Chg in Cash	49.6	327	10.1	(6.2)	(0.8)

Operating CFPS (\$ cts)

7.58

7.60

6.44

7.90

8.39

Free CFPS (\$ cts)

(21.5)

8.03

(65.6)

7.49

(8.5)

Source: Company, DBS Bank

## Target Price &amp; 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:	07 Nov 19	1.27	1.40	BUY
2:	09 Jun 20	1.18	1.40	BUY
3:	05 Aug 20	1.36	1.60	BUY

Source: DBS Bank

Analyst: Dale LAI

Derek TAN



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

Completed Date: 25 Sep 2020 17:35:17 (SGT)

Dissemination Date: 25 Sep 2020 18:23:15 (SGT)

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

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