

COMPANY UPDATE

Frasers Logistics & Commercial Trust (FLT SP)

1QFY22 Business Update: Active Rebalancing To Enhance Scale In Logistics

FLT's 1QFY22 business update indicates vacancies remain tight and rents for logistics space stay firm in Australia, Germany and the Netherlands. Its logistics properties in Australia, Europe and the UK have maintained full occupancy of 100%. FLT plans to redeploy half of the proceeds from the divestment of CSE to logistics properties in Germany, the Netherlands and the UK. Distribution yield is attractive at 5.5% for FY22 after the stock corrected 9% ytd. Maintain BUY. Target: S\$1.79.

WHAT'S NEW

- Frasers Logistics & Commercial Trust (FLT) provided a business update for 1QFY22:
- Benefitting from embedded fixed annual rental escalation.** FLT has completed 20 new/renewed leases for 69,274sqm of space in 1QFY22. Rental escalation for logistics properties was negative at 10.2%, based on signing rent excluding step-ups divided by preceding terminating rents. Based on mid-point rent of the new/renewed leases, rental escalation is marginally negative at 1.5%. Market rents have not kept up with the compounding annual escalation of 3.1%, which resulted in the negative rental reversion. Rental escalation for commercial properties was positive at 4%.
- Stability from long WALE.** FLT's portfolio of 102 properties has weight average lease expiry (WALE) by gross rental income of 4.7 years (logistics & industrial: 5.3 years and commercial: 4.1 years). Only six industrial leases and 38 commercial leases are up for renewal for the rest of FY22, which represents 4.8% of gross rental income.
- Positive outlook for logistics properties in Australia, Germany and Netherlands.** In Australia, vacancy rates remain tight at 0.4% in Sydney, 1.3% in Melbourne and 2.3% in Brisbane as of Dec 21. Rents for logistics space in Sydney, Melbourne and Brisbane increased 5.5%, 9.6% and 4.3% yoy respectively to A\$153, A\$103 and A\$120 per sqm per year in 4Q21. Rents in Germany and the Netherlands are €90 and €85 per sqm per year respectively and there is upward pressure due to strong take-up and limited supply.
- Logistics properties maintained full occupancy.** FLT's logistics properties in Australia, Europe and the UK maintained full occupancy of 100% as of Dec 21. Occupancy for commercial properties was stable at 91%. Occupancy at Farnborough Business Park in UK improved 2ppt qoq to 87.2% due to backfilling of space vacated by Fluor. Occupancy for Alexandra Technopark in Singapore eased 1.7ppt qoq to 94.8%.
- Well spread-out debt maturity profile.** Aggregate leverage edged higher by 0.7ppt qoq to 34.3% due to weakness in the Euro. Interest coverage ratio is healthy at 8.7x. Borrowings of S\$269m due in FY22 will be repaid utilising proceeds from the divestment of Cross Street Exchange (CSE). Weighted average debt maturity is 3.1 years. 71.6% of its borrowings are hedged to fixed rates.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	332	469	497	506	515
EBITDA	236	319	337	344	351
Operating profit	236	319	337	344	351
Net profit (rep./act.)	465	731	257	263	268
Net profit (adj.)	120	125	257	263	268
EPU (S\$ cent)	4.3	3.6	7.0	7.1	7.2
DPU (S\$ cent)	7.1	7.7	7.7	7.8	7.9
PE (x)	32.1	39.0	19.9	19.6	19.3
P/B (x)	1.3	1.1	1.1	1.1	1.2
DPU Yld (%)	5.1	5.5	5.5	5.6	5.7
Net margin (%)	140.0	155.8	51.8	52.0	52.2
Net debt/(cash) to equity (%)	65.0	55.6	56.0	56.9	57.8
Interest cover (x)	5.8	7.1	7.0	7.1	7.2
ROE (%)	15.9	17.5	5.6	5.8	6.0
Consensus DPU (S\$ cent)	n.a.	n.a.	7.8	8.0	8.2
UOBKH/Consensus (x)	-	-	0.98	0.97	0.96

Source: Frasers Logistics & Commercial Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.39
Target Price	S\$1.79
Upside	+28.8%

COMPANY DESCRIPTION

FLCT invests in income-producing properties used predominantly for logistics, commercial (CBD office space) or business park (non-CBD office and R&D space) purposes.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FLT SP
Shares issued (m):	3,686.1
Market cap (S\$m):	5,123.7
Market cap (US\$m):	3,808.9
3-mth avg daily t'over (US\$m):	8.2

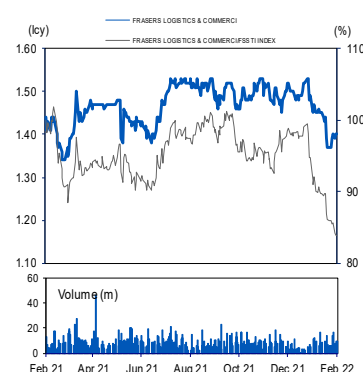
Price Performance (%)

52-week high/low	S\$1.53/S\$1.34			
1mth	3mth	6mth	1yr	YTD
(6.7)	(9.2)	(8.6)	(2.8)	(8.6)

Major Shareholders

Frasers Property Industrial Trust	20.6
FY22 NAV/Share (S\$)	1.23
FY22 Net Debt/Share (S\$)	0.69

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Divestment of CSE in line with pivot towards logistics.** FLT has entered into a sale and purchase agreement for the sale of the leasehold property at 18, 20 and 22 Cross Street, also known as CSE, for S\$810.8m. The consideration represents a 28.3% premium to book value of S\$632.0m as at Sep 21. The divestment of the non-core leasehold CBD commercial property is in line with FLT's portfolio rebalancing towards the logistics and industrial asset class. Assuming 49.2% of the net proceeds are used to repay outstanding debt, FLT's aggregate leverage is expected to be lowered by 4.4ppt from 33.7% to 29.3% on a pro forma basis. The divestment is expected to be completed on 31 Mar 22.
- Acquired development project in the UK.** FLT has acquired a property to be developed at Worcester Six, a new business park in the West Midlands, for all-in maximum consideration on a completed basis of £28.3m (S\$51.5m). Worcester Six business park is an established location at junction 6 of the M5 Motorway in the county of Worcestershire. 80% of UK's population can be reached within a four hours' drive due to its proximity to the National Motorway Network. The property has total lettable area of 180,121sf and sits on a 3.48-ha site. It will be leased to Alliance Flooring Distribution on a new 15-year lease subject to upward only rent reviews every five years. The property is expected to be completed in 1QFY23.
- Commenced development of Connexion II.** The newly-acquired Blythe Valley Park located near Birmingham and within UK's Golden Triangle has a 3-hectare vacant land. FLT will invest £18m to develop the site into three standalone logistics warehouses with lettable area of 10,800sqm. The development is expected to be completed in 4QFY22. FLT is also looking at partnering sponsor FPL to develop logistics properties in Australia and Europe.

EARNINGS REVISION/RISK

- We kept our DPU forecast unchanged pending completion of divestment of CSE and details on deployment of proceeds from the divestment.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.79 is based on DDM (cost of equity: 6.25%, terminal growth: 2.0%).

SHARE PRICE CATALYST

- Continued growth and expansion by tapping on sponsor pipeline of logistics and business park properties.
- Development projects at Blythe Valley Park and Farnborough Business Park. Partnering sponsor FPL to develop logistics properties in Australia and Europe.

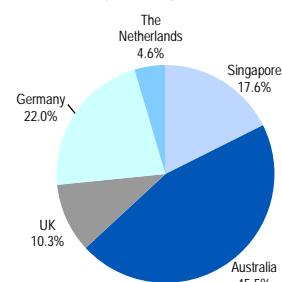
KEY OPERATING METRICS

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	yoy Chg	qoq Chg*
DPU (S cents)	n.a.	3.80	n.a.	3.88	n.a.	n.a.	n.a.
Occupancy	97.2%	96.8%	96.3%	96.2%	96.9%	-0.3ppt	0.8ppt
Aggregate Leverage	36.2%	35.3%	36.4%	33.7%	34.3%	-1.9ppt	0.7ppt
Weighted All-in Financing Cost	1.9%	1.9%	1.7%	1.6%	1.6%	-0.3ppt	0ppt
% Borrowing in Fixed Rates	57.4%	70.6%	69.4%	72.8%	71.6%	14.2ppt	-1.2ppt
WALE by GRI (years)	4.8	4.7	4.9	4.8	4.8	0yrs	0yrs
Debt Maturity (years)	3.1	3.1	3.1	3.4	3.1	0yrs	-0.3yrs
Rental Reversion	-6.9%	0.1%	0.8%	-2.3%	-1.6%	5.3ppt	0.7ppt

* hoh % chg for DPU

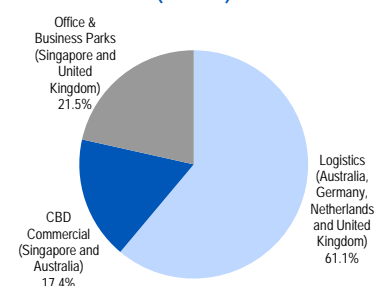
Source: FLT, UOB Kay Hian

AUM BY COUNTRY (SEP 21)



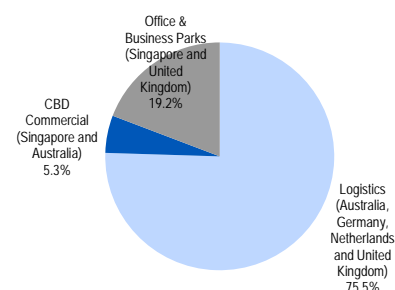
Source: FLCT

AUM BY ASSET TYPE (SEP 21)



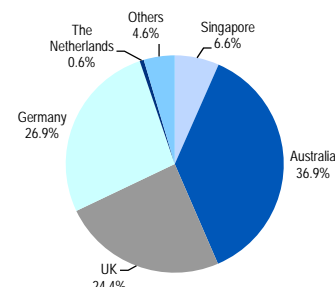
Source: FLCT

SPONSOR PIPELINE - LETTABLE AREA BY ASSET TYPE (JAN 21)



Source: FLT

SPONSOR PIPELINE - LETTABLE AREA BY REGION (JAN 21)



Source: FLT

PROFIT & LOSS

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Net turnover	469.3	496.5	505.5	514.8
EBITDA	319.1	337.2	343.9	350.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	319.1	337.2	343.9	350.7
Net interest income/(expense)	(44.8)	(48.2)	(48.6)	(49.0)
Pre-tax profit	880.7	289.0	295.3	301.7
Tax	(140.9)	(28.9)	(29.5)	(30.2)
Minorities	(8.7)	(2.9)	(3.0)	(3.0)
Net profit	731.1	257.2	262.8	268.5
Net profit (adj.)	124.8	257.2	262.8	268.5

BALANCE SHEET

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,482.5	7,494.5	7,506.5	7,518.5
Other LT assets	16.5	16.5	16.5	16.5
Cash/ST investment	140.4	148.6	151.6	154.8
Other current assets	40.9	41.8	42.6	43.3
Total assets	7,680.2	7,701.4	7,717.2	7,733.0
ST debt	234.5	234.5	234.5	234.5
Other current liabilities	126.2	152.6	155.4	158.3
LT debt	2,447.2	2,460.0	2,490.0	2,520.0
Other LT liabilities	252.8	256.9	262.0	267.2
Shareholders' equity	4,574.6	4,549.7	4,524.5	4,499.3
Minority interest	44.8	47.7	50.7	53.7
Total liabilities & equity	7,680.2	7,701.4	7,717.2	7,733.0

CASH FLOW

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Operating	299.4	332.6	316.3	322.7
Pre-tax profit	880.7	289.0	295.3	301.7
Working capital changes	(2.9)	24.2	1.7	1.8
Non-cash items	(583.9)	24.2	24.3	24.4
Other operating cashflows	5.5	(4.7)	(5.0)	(5.2)
Investing	(325.4)	(12.0)	(12.0)	(12.0)
Capex (growth)	(456.8)	0.0	0.0	0.0
Capex (maintenance)	(13.1)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	17.7	0.0	0.0	0.0
Others	126.9	0.0	0.0	0.0
Financing	(2.3)	(312.4)	(301.3)	(307.6)
Distribution to unitholders	(152.0)	(282.2)	(287.9)	(293.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	485.1	12.8	30.0	30.0
Others/interest paid	(335.4)	(43.0)	(43.4)	(43.8)
Net cash inflow (outflow)	(28.3)	8.2	3.0	3.1
Beginning cash & cash equivalent	168.7	140.4	148.6	151.6
Changes due to forex impact	0.1	0.0	0.0	0.0
Ending cash & cash equivalent	140.4	148.6	151.6	154.8

KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	68.0	67.9	68.0	68.1
Pre-tax margin	187.6	58.2	58.4	58.6
Net margin	155.8	51.8	52.0	52.2
ROA	10.1	3.3	3.4	3.5
ROE	17.5	5.6	5.8	6.0
Growth				
Turnover	41.4	5.8	1.8	1.8
EBITDA	34.9	5.7	2.0	2.0
Pre-tax profit	62.9	(67.2)	2.2	2.2
Net profit	57.3	(64.8)	2.2	2.2
Net profit (adj.)	4.1	106.2	2.2	2.2
EPU	(17.8)	96.1	1.6	1.6
Leverage				
Debt to total capital	36.7	37.0	37.3	37.7
Debt to equity	58.6	59.2	60.2	61.2
Net debt/(cash) to equity	55.6	56.0	56.9	57.8
Interest cover (x)	7.1	7.0	7.1	7.2

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