

Singapore

Overweight (no change)

Highlighted Companies

ARA LOGOS Logistics Trust
ADD, TP **S\$0.92**, **S\$0.815** close

The revised offer from ESR-REIT (EREIT) fairly values ARA LOGOS Logistics Trust (ALOG), in our view. DPU and NAV accretions have also improved vs. the original offer. The merger will remove potential conflicts of interest from investment mandate overlaps and could accelerate the growth potential of the merged entity.

ESR-REIT
ADD, TP **S\$0.50**, **S\$0.42** close

The proposed merger will be DPU-accretive to EREIT. Although it is NAV-dilutive, the potential positive asset revaluation, especially for assets in Australia, and acquisitions will help to neutralise the effect in the longer term. In addition, the merger will remove potential conflicts of interest from investment mandate overlaps and could accelerate the growth of the combined entity.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
ESR-REIT	15.30	15.11	14.55
ARA LOGOS Logistics Trust	24.46	23.73	23.16
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
ESR-REIT	1.08	1.09	1.10
ARA LOGOS Logistics Trust	1.17	1.18	1.18
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
ESR-REIT	7.43%	7.51%	7.60%
ARA LOGOS Logistics Trust	6.25%	6.37%	6.50%

Analyst(s)



EING Kar Mei, CFA

T (65) 6210 8669
E karme.i.eing@cgs-cimb.com

LOCK Mun Yee

T (65) 6210 8606
E munyee.lock@cgs-cimb.com

REIT

EREIT/ALOG merger EGM on 21 Mar 2022

- Aside from the usual merger benefits, the proposed EREIT-ALOG merger is crucial to avoid conflicts of interest that could derail the growth of both REITs.
- We see more merits from the REITs merging than on a standalone basis.
- Reiterate Add on ALOG, EREIT. Both REITs are trading at 6-7% DPU yields.

ESR REIT-ALOG merger EGM set on 21 Mar 2022

The EGM for the EREIT-ALOG merger has been set on 21 Mar 2022. Based on the revised offer, EREIT is offering S\$0.97 per ALOG unit (10% cash and 90% units), which values ALOG at 1.45x P/NAV (based on an issue price of S\$0.49). Based on EREIT's current price of S\$0.42, EREIT is still valuing ALOG at S\$0.84, or 1.26x P/NAV, above ALOG's 5-year historical, 1-year historical and current P/NAVs of 1.12x, 1.26x or 1.2x respectively. For the merger to go through, EREIT requires >50% of the total number of votes cast from shareholders, while ALOG requires >50% of total number of votes cast and ≥75% in value of ALOG units. If the merger is approved, the scheme will be effective by end-Apr 2022.

What's important aside from the usual benefits of a merger?

Addressing conflicts of interest. The issue of conflict of interest arose after the proposed ARA acquisition by ESR Group was completed on 20 Jan 2022. With both EREIT and ALOG now sharing a common sponsor and having overlapping mandates, there will be conflicts of interest if both REITs continue to operate as different entities. For instance, both REITs may have to compete for the same assets from the sponsor/third parties in the future. We understand that both REITs were often the direct competitive bidders for the same assets recently. In addition, the sponsor has to split its operational and finance sources between the two REITs, and both REITs may also need to compete for the same pool of tenants, all of which could impact the growth of both REITs negatively.

What if the merger does not go through?

We believe both REITs, with their relatively small AUM/market cap compared to peers, may not be able to grow as fast as desired due to higher cost of funding. The ability to acquire larger assets is also capped. To avoid conflicts of interest, ESR Group could also decide to divest one of the REIT's managers, resulting in one of the REITs potentially losing their "halo" effect and premium valuation (which will affect the ability to acquire, and hence grow) as the REIT may have limited access to asset pipeline and funding. To put things into perspective, developer-sponsored industrial SREITs command a premium valuation of 1.1 to 1.5x P/NAV (vs. non-developer sponsored industrial SREITs of 0.9-1x), although we believe the premium commanded by sponsored REITs is also driven by their more diversified geographical exposure, which the merged entity will see post-merger. We expect both REITs to continue to carry out capital recycling if the merger fails to proceed, but individual asset sales may not get similar market valuation premiums.

More merits from the merger than on a standalone basis

We believe a merger brings more benefits (e.g. diversification and ability to grow) in the longer term, in particular when other REITs are also scaling up their portfolio size for diversification and to compete for growth. We think EREIT is valuing ALOG fairly and the merger provides 12.8% and 5.3% DPU and NAV accretion, respectively, to ALOG. Although the deal is DPU accretive but NAV dilutive for EREIT, ALOG's portfolio could strengthen the portfolio of the merged entity with its pure logistics assets in Singapore and freehold land exposure in Australia. In addition, logistics assets in both countries have been seeing strong demand and an increase in valuation would offset EREIT's initial NAV dilution from the merger in the longer term. The increased flexibility in portfolio rebalancing (to increase its exposure to new economy properties), AEs and lower cost of funding (from potential rerating and lower cost of debt) would also help to accelerate growth potential of the merged entity. The sponsor has a New Economy pipeline of >US\$59bn for the merged entity to explore. Re-rating catalysts/downside risks include acceleration in growth post-merger/inability to pare down gearing post-merger, which will limit growth opportunities.

Reiterate Add

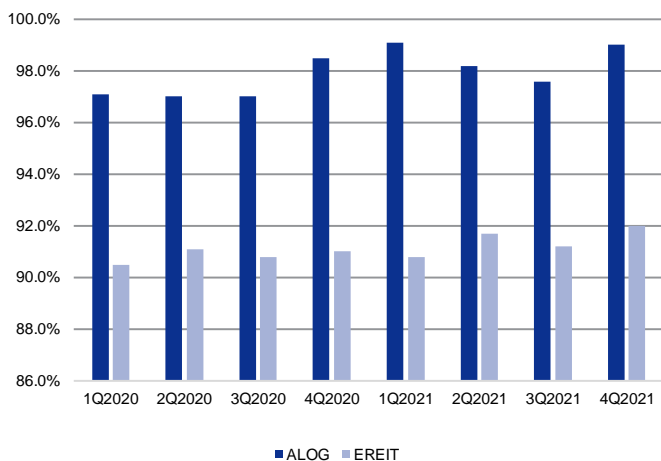
We reiterate Add calls on both ALOG (Add, TP S\$ 0.92) and ESR REIT (Add, TP S\$ 0.50), based on unchanged DDM-based target prices. We like both REITs on a standalone basis, but we believe further upside could be seen post-merger, driven by better diversification, acceleration of inorganic growth and stronger representation in indexes.

We expect EREIT to continue to deliver stable income, supported by its diversified income across different industrial segments and AEs. ESR REIT is trading at an attractive 7.3% FY22F DPU yield (vs. 5-year historical yield of 6.5%). We see further upside from improvements in operating metrics on easing Covid-19 measures and an improving operating environment, which should drive the occupancies of business parks and general industrials, respectively. Logistics and high spec industrial assets should continue to deliver healthy rental reversions on high demand and flight to quality. The land tenure of Viva Business Park has a remaining 10-year lease, and the REIT is in discussions with the authority for land renewal. Viva business Park contributed c.9% of the total AUM in 2020, and we estimate the contribution will be reduced to c.6% post-merger.

We like ALOG for its pure exposure in the logistic industrial warehouse segment, which is seeing strong demand in both Singapore and Australia. ALOG has been delivering positive rental reversions (+4.8% in 2020; +3.1% in 2021) and high occupancies (97% to 99%) since 2H2020. We expect ALOG to continue to deliver healthy operating metrics, driven by heightened demand for warehouse space since the pandemic and moderated supply pipeline in Singapore. ALOG is also trading at attractive valuations of 6.1% to 6.2% DPU yields in FY22-23F (vs. the industrial REITs' average of 5.8% to 5.9%).

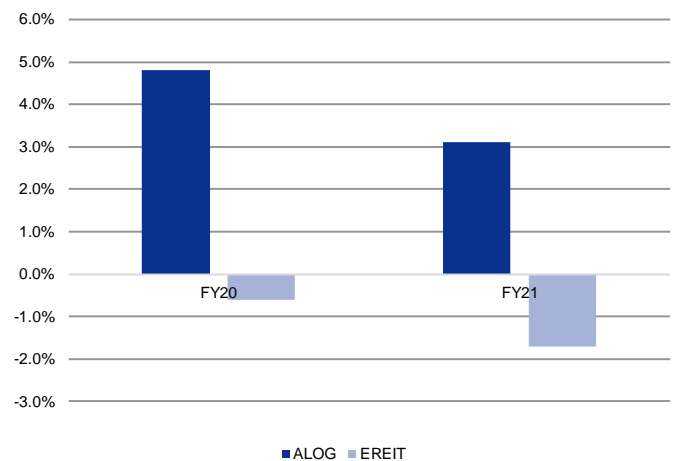
ALOG and ESR REIT were trading at 5.6% and 6.6% DPU yield prior to the announcement of the merger in Oct 2021, and we believe there is limited downside risk from here.

Figure 1: Occupancy rates

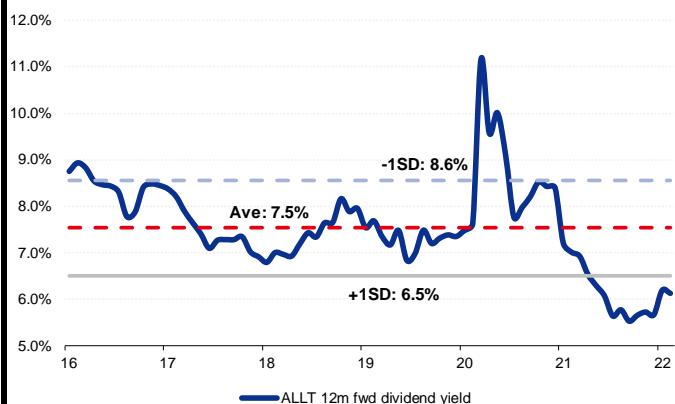


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

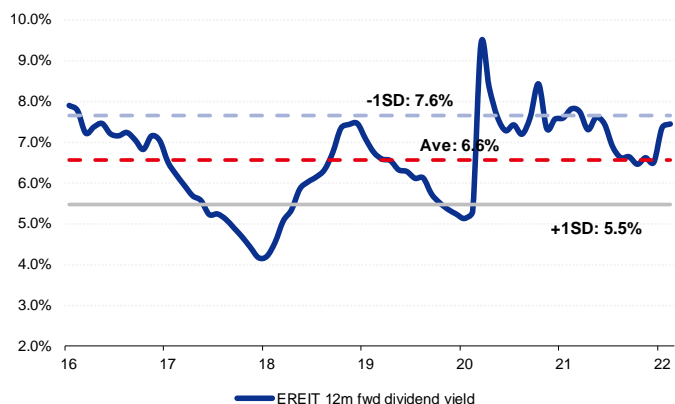
Figure 2: Rental reversions



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: ARA LOGOS Logistics Trust's 12m forward dividend yield (%)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: ESR-REIT's 12m forward dividend yield (%)


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Figure 5: Sector comparison

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY21F Yield	FY22F Yield	FY23F Yield
			as at 06 Mar 22	Price (LC) (DDM-based)							
Hospitality											
Ascott Residence Trust	ART SP	Add	1.03	1.21	\$2,486	37.1%	1.19	0.87	4.2%	4.8%	6.2%
CDL Hospitality Trust	CDREIT SP	Add	1.12	1.30	\$1,014	39.1%	1.29	0.87	3.8%	4.4%	6.1%
Far East Hospitality Trust	FEHT SP	Add	0.58	0.75	\$843	38.3%	0.83	0.70	4.5%	4.6%	5.9%
Frasers Hospitality Trust	FHT SP	NR	0.45	NA	\$658	37.7%	0.65	0.68	4.6%	5.0%	5.1%
	Simple Average					38.1%		0.78	4.3%	4.7%	5.8%
Industrial											
AIMS AMP	AAREIT SP	NR	1.40	NA	\$756	33.6%	1.34	1.04	6.4%	6.7%	6.9%
Ascendas REIT	AREIT SP	Add	2.82	3.20	\$8,701	35.9%	2.31	1.22	5.4%	5.9%	6.1%
ARA LOGOS Logistics Trust	ALLT SP	Add	0.82	0.92	\$870	39.5%	0.67	1.22	6.2%	6.2%	6.4%
ESR-REIT	EREIT SP	Add	0.42	0.50	\$1,246	40.0%	0.40	1.06	7.1%	7.4%	7.5%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.42	1.56	\$3,853	34.3%	1.24	1.15	5.4%	5.7%	5.6%
Keppel DC REIT	KDCREIT SP	Add	2.22	2.70	\$2,802	34.6%	1.34	1.66	4.5%	4.8%	4.8%
Mapletree Industrial Trust	MINT SP	Add	2.59	3.08	\$5,066	39.9%	1.80	1.44	4.8%	5.0%	5.4%
Mapletree Logistics Trust	MLT SP	Add	1.79	2.10	\$6,153	34.7%	1.37	1.31	4.7%	4.8%	4.8%
Sabana Shariah	SSREIT SP	NR	0.44	NA	\$346	33.4%	0.51	0.86	na	na	na
	Simple Average					36.2%		1.32	5.6%	5.8%	5.9%
Office											
Keppel REIT	KREIT SP	Add	1.16	1.29	\$3,166	38.4%	1.29	0.90	5.0%	5.0%	5.1%
OUE Commercial REIT	OUECT SP	Hold	0.40	0.45	\$1,582	38.7%	0.57	0.69	6.6%	6.9%	6.9%
Suntec REIT	SUN SP	Add	1.64	1.79	\$3,457	43.7%	2.11	0.78	5.3%	6.6%	6.7%
	Simple Average					40.3%		0.79	5.6%	6.2%	6.3%
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	2.11	2.57	\$10,269	37.2%	2.06	1.02	4.9%	5.2%	5.3%
Frasers Centrepoint Trust	FCT SP	Add	2.27	2.73	\$2,839	34.5%	2.30	0.99	5.3%	5.5%	5.6%
Lendlease Global Commercial REIT	LREIT SP	Add	0.81	0.95	\$709	33.5%	0.81	1.00	5.8%	5.9%	6.4%
Mapletree Commercial Trust	MCT SP	Add	1.82	2.18	\$4,446	34.2%	1.72	1.06	5.2%	5.2%	5.4%
SPH REIT	SPHREIT SP	Add	0.95	1.03	\$1,957	30.3%	0.91	1.04	5.7%	5.6%	5.5%
Starhill Global REIT	SGREIT SP	Add	0.59	0.71	\$960	36.1%	0.80	0.73	6.7%	7.2%	7.4%
	Simple Average					34.3%		0.97	5.6%	5.8%	5.9%
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	1.18	NA	\$1,467	34.7%	1.55	0.76	7.4%	8.2%	8.6%
Elite Commercial REIT	ELITE SP	Add	0.64	0.76	\$401	42.1%	0.63	1.01	8.1%	7.9%	8.5%
Mapletree North Asia Commercial Trust	MAGIC SP	Add	1.08	1.13	\$2,801	42.1%	1.27	0.85	5.7%	6.4%	7.3%
Manulife US REIT	MUST SP	Add	0.63	0.89	\$1,111	42.8%	0.67	0.94	8.5%	9.1%	9.7%
Sasseur REIT	SASSR SP	Add	0.87	1.06	\$778	26.1%	0.99	0.88	8.1%	8.4%	8.8%
	Simple Average					38.4%		0.89	0.08	0.08	0.09
Healthcare											
Parkway Life REIT	PREIT SP	Add	4.65	5.05	\$2,068	37.0%	1.95	2.38	3.0%	3.0%	3.1%
	Simple Average					36.0%		2.38	3.0%	3.0%	3.1%
	Simple average for SIN					36.9%		1.04	5.7%	6.0%	6.3%

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** -

Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.