

**Company update**

# ESR-LOGOS REIT

**Singapore | Real Estate**

Rating BUY (as at 10 May 2022)  
 Last Close SGD 0.38  
 Fair Value SGD 0.50

**Chu Peng**  
 Equity Research

## Paving the way ahead

- **Merger was completed**
- **Renamed as ESR-LOGOS REIT**
- **Exposure to New Economy properties increases to 66%**

## Investment thesis

ESR-REIT's merger with ARA LOGOS Logistics Trust (ALOG) completed on 28 Apr 2022. The newly formed REIT will be renamed as ESR-LOGOS REIT (ELOG). Post-merger, ELOG will increase its income diversification to Australia to 13% by rental income and exposure to New Economy asset i.e. logistics/warehouse and high-specs industrial from 47% to 66%. With an enlarged scale, ELOG could tap on its sponsor's strong network and rich pipeline of USD2b of visible and executable New Economy assets to undertake sizeable acquisitions. Future acquisitions are likely to focus on freehold assets in Singapore, Australia and Japan. Factoring the impact of the merger, we reduce our distribution per unit (DPU) estimates for FY22-26 by 0.8% -4.3% due to enlarged unit base and higher utility costs. After adjustments, our fair value estimate decreases marginally from SGD0.52 to SGD0.50.

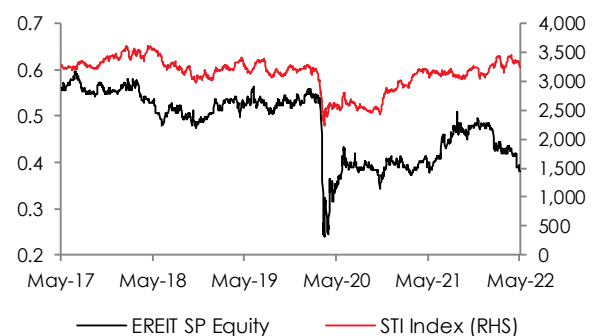
## Investment summary

- **A newly formed REIT** – The merger with ARA LOGOS Logistics Trust (ALOG) completed on 28 Apr 2022. ALOG was subsequently delisted from the SGX on 5 May 2022. The newly formed REIT will be renamed as ESR-LOGOS REIT (ELOG). For the first 100 days post-merger, ELOG will focus on integration, asset business plan i.e. divestments/asset enhancement initiatives (AEIs) opportunities, as well as evaluation of acquisitions and redevelopment potential. Factoring the impact of the merger, we reduce our DPU estimates for FY22-26 by 0.8%-4.3% due to enlarged unit base and higher utility costs. After adjustments, our fair value estimate decreases marginally from SGD0.52 to SGD0.50.
- **Leveraging growth opportunities in New Economy properties** – Post-merger, ELOG will increase its income diversification to Australia to 13% by rental income while 87% is derived from Singapore. With the

## Security information

Ticker	EREIT SP
Market Cap (SGD b)	2.5
Daily turnover (SGD m)	3.4
Free Float	81%
Shares Outstanding (m)	4,030
Top Shareholder	Tong Jinquan 9.9%

## Price performance chart



## Financial summary

SGD m	FY 21	FY 22E	FY 23E
Gross revenue	241.3	356.5	408.3
Net property income	173.3	254.6	290.7
Total amt. avail for distribtn.	114.4	194.1	211.6
Distribution per unit (\$ cents)	3.0	2.9	3.1

## Key ratios

	FY 21	FY 22E	FY 23E
DPU yield (%)	7.9	7.6	8.2
P/NAV (x)	1.0	1.0	1.1
NPI margin (%)	71.8	71.4	71.2
Gross gearing (%)	35.8	41.4	41.8

Source: Bloomberg, REIT manager, Internal estimates

addition of ALOG's portfolio, ELOG's exposure to New Economy asset will increase from 47% to 66%. This provides ELOG outsized exposure to benefit from the largest secular growth opportunity in Asia. With an enlarged scale, ELOG could tap on its sponsor's strong network and rich pipeline of USD2b of visible and executable New Economy assets to undertake sizeable acquisitions. Future acquisitions are likely to focus on freehold assets in Singapore, Australia, and Japan.

- **1Q22 DPU fell 9.6% YoY due to enlarged unit base** – ESR-REIT's 1Q22 DPU rose 0.3% quarter-over quarter (QoQ) but was down 9.6% year-over-year (YoY) to 0.723 Singapore cents, primarily due to an enlarged share base, in-line with our expectations. 1Q22 net property income fell 10.4% YoY to SGD39.5m, weighed down by higher utilities expenses. We understand that utilities cost made up ~25% of the REIT's total operating cost in FY21, but is expected to increase to 35% in FY22. Portfolio occupancy remained healthy at 91.5% in 1Q22, supported by healthy demand and robust positive rental reversions of 3.1% from the logistics/warehouse, general industrial, and business park sectors. Retail space in the business park remained weak, registering negative rental reversions in 1Q22, but is likely to improve as the workforce gradually returns.

## ESG Updates

- ESR REIT's ESG rating was downgraded in Oct 2020, largely driven by weakening governance structure due to concerns with related party transactions. ESR REIT's environment score trails its peers due to fewer green-certified buildings in its portfolio relative to peers. However, its human capital development ranks higher than industry average, with comprehensive employee development efforts including strong managerial and leadership development training initiatives

## Potential catalysts

- Earlier than expected recovery in industry demand-supply dynamics
- DPU accretive acquisitions

## Investment risks

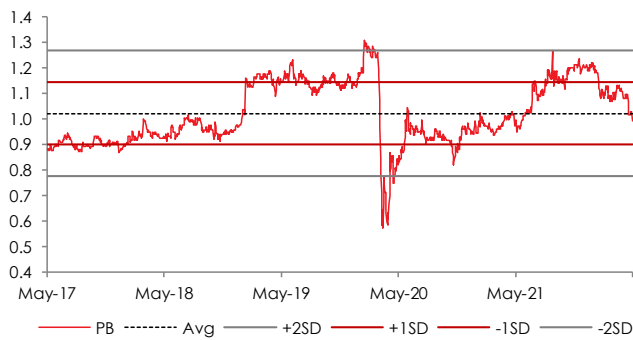
- Tenant defaults or asset conversions from master-leased to multi-tenanted.
- A slowdown in macroeconomic conditions may dampen business sentiment.

## Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
ESR-LOGOS REIT (EREIT SP)	14.1	13.1	1.0	1.0	22.4	19.6	7.9	8.2	7.1	7.4
ASCENDAS REAL ESTATE INVESTMEN (AREIT SP)	17.2	16.7	1.2	1.2	20.6	19.7	5.8	6.0	6.6	6.7
MAPLETREE LOGISTICS TRUST (MLT SP)	19.1	18.7	1.2	1.2	23.0	22.3	5.4	5.5	5.7	5.8
MAPLETREE INDUSTRIAL TRUST (MINT SP)	19.8	19.1	1.3	1.3	21.4	20.5	5.7	5.8	7.2	7.4
FRASERS LOGISTICS & COMMERCIAL (FLT SP)	15.2	19.6	1.1	1.1	22.1	22.0	5.7	5.7	6.6	6.1

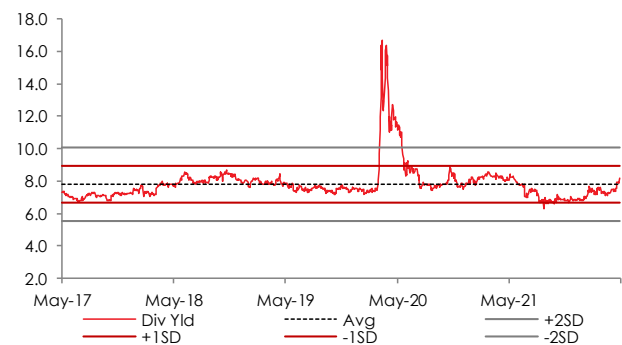
Source: Bloomberg

### Price/Book chart



Source: Bloomberg

### Dividend Yield chart



Source: Bloomberg

## Company overview (as of 31 December 2021)

### Company description

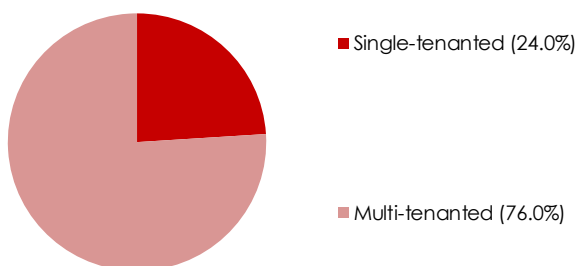
ESR-REIT is a Singapore-based real estate investment trust constituted by the Trust Deed entered into on 31 March 2006 between ESR-FM as the Manager of ESR-REIT and RBC Investor Services Singapore Limited as the Trustee of ESR-REIT, as amended and restated. ESR-REIT was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 25 July 2006.

On 15 October 2018, ESR-REIT completed its merger with Viva Industrial Trust ("VIT") (comprising Viva Industrial Real Estate Investment Trust and Viva Industrial Business Trust) by way of a trust scheme of arrangement ("Merger"). Under the Merger, ESR-REIT acquired all of VIT's issued stapled securities for S\$9.60 in cash and 160 new ESR-REIT units in exchange for every 100 VIT stapled securities held by the stapled securityholders of VIT.

As at 31 December 2021, the Group has a diversified portfolio of 56 properties located across Singapore with a diversified tenant base of over 358 tenants across the following sub sectors: logistics/warehouse, hi-specs industrial, general industrial and business park. ESR-REIT also hold 10% interest in ESR Australia Logistics Partnership. The portfolio has a carrying value of approximately SGD3.2b (including 100% of the valuation of 7000 Ang Mo Kio in which ESR-REIT hold 80% interest and 100% of the valuation of 48 Pandan Road in which ESR-REIT hold 49% interest) and a total gross floor area of approximately 15.3m square feet.

### Single- vs. Multi-tenanted

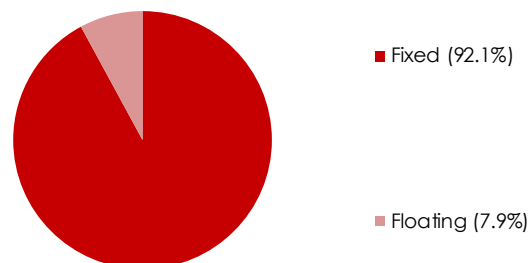
By rental income (as at 31 Dec 2021)



Source: Company

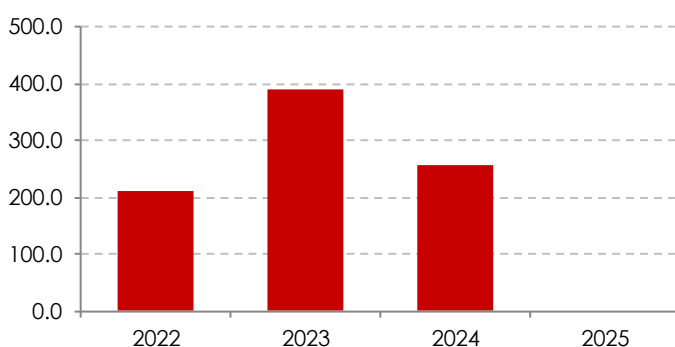
### Fixed vs. floating interest rate exposure

(as at 31 Dec 2021)



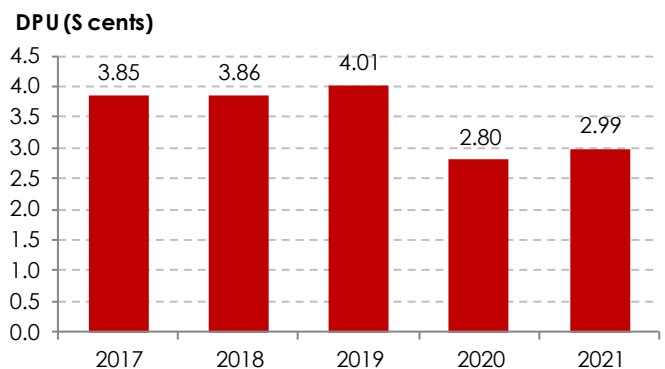
Source: Company

### Debt Maturity Profile (\$m)



Source: Company

### Distribution Per Unit



Source: Company

## Company financials

### Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
<b>Revenue</b>	<b>109.7</b>	<b>156.9</b>	<b>253.0</b>	<b>229.9</b>	<b>241.3</b>
- Cost of Revenue	—	—	—	—	—
<b>Gross Profit</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
+ Other Operating Income	0.3	5.4	—	15.8	—
- Operating Expenses	0.0	0.0	0.0	0.0	—
<b>Operating Income or Losses</b>	<b>69.3</b>	<b>100.3</b>	<b>170.4</b>	<b>140.9</b>	<b>155.6</b>
- Interest Expense	20.4	27.4	62.0	56.8	43.9
- Foreign Exchange Losses (Gains)	—	—	—	—	-3.1
- Net Non-Operating Losses (Gains)	47.4	301.2	97.0	74.4	11.7
<b>Pretax Income</b>	<b>1.4</b>	<b>-228.3</b>	<b>9.9</b>	<b>12.7</b>	<b>107.8</b>
- Income Tax Expense (Benefit)	0.0	0.1	0.0	0.0	2.2
<b>Income Before XO Items</b>	<b>1.4</b>	<b>-228.4</b>	<b>9.9</b>	<b>12.7</b>	<b>105.6</b>
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority/Non Controlling Interests (Credits)	0.8	4.2	3.8	3.0	4.1
<b>Net Income/Net Profit (Losses)</b>	<b>0.6</b>	<b>-232.6</b>	<b>6.1</b>	<b>9.7</b>	<b>101.5</b>
<b>Net Inc Avail to Common Shareholders</b>	<b>0.6</b>	<b>-232.6</b>	<b>6.1</b>	<b>9.7</b>	<b>101.5</b>
Abnormal Losses (Gains)	47.6	1.8	90.9	58.1	4.6
Tax Effect on Abnormal Items	0.0	0.0	0.0	0.0	0.0
<b>Normalized Income</b>	<b>48.2</b>	<b>-230.7</b>	<b>97.0</b>	<b>67.8</b>	<b>106.1</b>
<b>Basic Earnings per Share</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Basic Weighted Avg Shares	1,325.6	1,859.1	3,313.2	3,532.9	3,813.3
<b>Diluted EPS Before Abnormal Items</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Diluted EPS Before XO Items</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Diluted EPS</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Diluted Weighted Avg Shares	1,325.6	1,859.1	3,313.2	3,532.9	3,813.3

### Profitability Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
<b>Returns</b>					
Return on Common Equity	0.08	-20.59	0.41	0.66	6.67
Return on Assets	0.04	-9.80	0.19	0.30	3.12
Return on Capital	0.10	-10.15	0.33	0.42	3.42
Return on Invested Capital	4.72	1.97	5.64	4.73	5.09
<b>Margins</b>					
Operating Margin	63.15	63.95	67.35	61.29	64.51
Incremental Operating Margin	-170.21	65.78	72.91	-127.64	129.68
Pretax Margin	—	—	—	—	—
Income before XO Margin	1.27	-145.55	3.92	5.54	43.77
Net Income Margin	0.56	-148.21	2.40	4.21	42.08
Net Income to Common Margin	0.56	-148.21	2.40	4.21	42.08
<b>Additional</b>					
Effective Tax Rate	0.00	—	0.26	0.09	2.01
Divd Payout Ratio	8,243.31	—	2,300.60	1,033.52	112.68
Sustainable Growth Rate	-6.23	—	-8.95	-6.12	-0.85

### Credit Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Total Debt/EBIT	9.67	12.64	8.33	9.99	9.07
Net Debt/EBIT	9.50	12.46	8.23	9.87	8.92
EBIT to Interest Expense	3.39	3.66	2.75	2.48	3.55
Long-Term Debt/Total Assets	30.36	32.33	38.90	36.98	42.33
Net Debt/Equity	70.77	76.68	84.54	87.00	79.36

Source: Bloomberg

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