

## Frasers Logistics &amp; Commercial Trust

Bloomberg: FLT SP | Reuters: FRAE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 May 2022

## BUY

Last Traded Price (6 May 2022): S\$1.44 (STI : 3,291.89)

Price Target 12-mth: S\$1.75 (21% upside) (Prev S\$1.85)

## Analyst

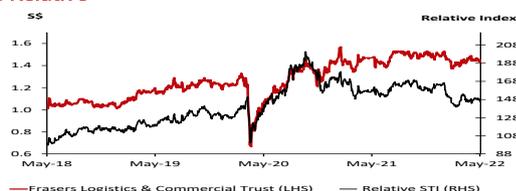
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## What's New

- Portfolio occupancy rate and rental reversions continue uptrend; CSE divestment completed
- Earlier than expected acquisition with >\$300m cash balance could provide upside surprise
- Potentially higher capital distribution from CSE divestment could be a nice surprise for FY22
- Maintain BUY with a revised TP of S\$1.75

## Price Relative



## Forecasts and Valuation

FY Sep (\$m)	2021A	2022F	2023F	2024F
Gross Revenue	469	466	478	487
Net Property Inc	367	378	387	395
Total Return	731	246	250	259
Distribution Inc	270	285	291	297
EPU (S cts)	3.68	6.67	6.71	6.89
EPU Gth (%)	4	81	1	3
DPU (S cts)	7.68	7.70	7.81	7.91
DPU Gth (%)	8	0	1	1
NAV per shr (S cts)	124	123	122	121
PE (X)	39.1	21.6	21.5	20.9
Distribution Yield (%)	5.3	5.3	5.4	5.5
P/NAV (x)	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	34.9	31.7	34.8	34.8
ROAE (%)	3.1	5.4	5.5	5.7

Distn. Inc Chng (%):	(2)	(2)	(2)
Consensus DPU (S cts):	7.90	8.00	8.20
Other Broker Recs:	B: 9	S: 0	H: 2

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

## Cash is king

## Investment Thesis

**Large-cap logistics REIT with the largest debt headroom.** With a gearing of less than 30%, FLCT has the lowest gearing amongst its peers and a debt headroom c.S\$1.3bn before gearing reaches 40%. Following its recent divestment, FLCT also has a large cash balance of c.S\$300m that it can immediately deploy to fund an acquisition and drive further accretion to earnings.

**ROFR pipeline from sponsor is worth more than S\$5.0bn.** Since its merger with FCOT, the REIT has acquired more than S\$600m worth of assets from its sponsor. Despite this, FLCT still has the largest ROFR pipeline, valued at more than S\$5.0bn, which could double its portfolio, providing a visibility like no other. Its current low gearing also provides it with ample debt headroom to fund acquisitions.

## Development and AEI projects to drive next leg of growth.

Having acquired more than S\$562m worth of assets in FY21, we believe that development and AEI projects will complement further acquisition plans in FY22. In addition to the ongoing development of the three-hectare vacant plot at Connexion II, FLCT has also recently forward-funded a prime warehouse development in the UK. We understand that the REIT will continue to focus on acquiring assets with development opportunities, as well as fund other development projects.

## Valuation:

Our DCF-based TP of S\$1.75 is based on an assumed discount rate of 5.9% (risk-free rate of 3.0%). We have assumed c.S\$350m of acquisitions in our projections.

## Where we differ:

**Exploring development projects.** With a large cash balance of c.S\$300m and ample debt headroom, we believe FLCT has the capacity to fund its next acquisition by cash and debt. As such, we have assumed a c.S\$350m acquisition at a yield of c.4.5% by the end of FY22. A larger-than-projected acquisition or one that is completed sooner-than-anticipated could lead to an upside to our estimates.

## 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)	3,691
Mkt. Cap (S\$m/US\$m)	5,315 / 3,837
Major Shareholders (%)	
Frasers Prop Ind Trust Hlds Pl	21.4
Free Float (%)	78.6
3m Avg. Daily Val (US\$m)	8.5
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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## WHAT'S NEW

### Cash is king

#### (+) Healthy portfolio occupancy of 96.1%

FLCT's overall portfolio occupancy in 2Q22 remained healthy at 96.1%. The Logistics & Industrial (L&I) portfolio remained 100% occupied, while the commercial portfolio reported an occupancy of 90.5%. Within the commercial portfolio, Central Park and 357 Collins Street reported a slight improvement in occupancies, while Alexandra Technopark, Farnborough Business Park and Blythe Valley Park reported a slight dip.

The uptick in FLCT's overall portfolio occupancy q-o-q was also helped by the removal of Cross Street Exchange (CSE) following its divestment on 31 March 2022. CSE had an occupancy of 83.6% in the previous quarter.

#### (+) Positive rental reversions of 2.6% in 2Q22

Like its peers, FLCT reported positive rental reversions in 2Q22, on an average expiring rent vs. average contracted new rent. Within its L&I portfolio, there was a slight negative rental reversion of -1.7% in Queensland, while the two other leases in New South Wales and Germany reported healthy positive rent reversions. For its commercial portfolio, the steep -22.2% decline in rents in Victoria was mainly contributed by several retail leases, while the rest of the leases in Western Australia, Singapore, and the UK saw positive reversions.

### Rental reversions continue to remain positive in 2Q22

		No. of Leases	Lettable Area (sqm)	Average Lease Term	Annual Increment	Reversion (incoming vs. outgoing) <sup>1</sup>	Reversion (average vs. average) <sup>2</sup>
<b>Logistics &amp; Industrial</b>							
Australia	Queensland	1	13,165	0.7 years	N.A.	-7.6%	-1.7%
	New South Wales	1	7,327	3.0 years	3.00%	-2.8%	6.6%
Europe	Germany	1	11,537	2.3 years	CPI-Linked	0.1%	3.3%
<b>2QFY22 L&amp;I Reversion:</b>						-4.0%	2.1%
<b>Commercial</b>							
Australia	Victoria	6	394	5.2 years		-36.1%	-22.2%
	Western Australia	2	1,172	6.0 years		-14.4%	14.3%
Singapore	Singapore	2	904	2.5 years		17.6%	17.6%
UK	West Midlands	2	748			3.5%	5.4%
<b>2QFY22 Commercial Reversion:</b>						-10.7%	3.5%
<b>2QFY22 Portfolio Reversion:</b>						<b>-6.4%</b>	<b>2.6%</b>

Source: Fraser's Logistics & Commercial Trust

#### (-) Income void following the divestment of CSE

FLCT completed the divestment of CSE on 31 March 2022 for S\$810.8m, translating to a 28.3% premium to valuations. Although the exit yield was a record low of c.2.5%, it would also lead to an absence of c.S\$20m of NPI for FLCT. As such, we have revised our estimates to account for the absence of income contribution from CSE, starting from 2H22.

Approximately S\$395m of the divestment proceeds have been utilised to repay loans, and we estimate that the absence of contribution from CSE will lead to a c.4% dip in DPU on an annual basis.

There are only c.3.3% of leases that will be due to expire in the rest of FY22. This consists of four industrial (1.8%) and 20 commercial (1.5%) leases. Although there is c.S\$171m recognised in capital gains from the divestment, we have not assumed any capital distributions in our projections.

#### (+) One of the lowest gearing and largest debt headroom

Following the repayment of S\$395m in borrowings in April 2022, FLCT's gearing improved to 29.5%. Assuming a gearing of up to 40%, FLCT has a debt headroom of c.S\$1.3bn.

Given its enviable debt headroom, we believe that FLCT is actively on the lookout to redeploy its capital and bring gearing up to a more optimal level. After using part of the proceeds from the CSE divestment to repay short term loans and fund the acquisition and development in the UK, we estimate that FLCT has more than c.S\$300m of cash which has not been utilised. As such, we have assumed that FLCT will embark on a c.S\$350m acquisition by the end of FY22, funded by the remaining cash and some debt.

#### **(+) Financing costs expected to remain stable in the near term**

With part of the proceeds used to repay short-term loans on floating rates, FLCT will only have c.S\$117m in loans due to mature for the remainder of FY22. Currently, c.82.6% of loans are hedged to fixed rates, and this helps further maintain FLCT's financing costs even as interest rates continue to rise globally.

Based on its sensitivity analysis, every 50 bps increase in interest rates will translate to a c.0.65% dip in DPU.

#### **(-) Depreciation of EUR and GBP**

FLCT hedges its income on a six-month forward rolling basis, and this has helped mitigate some of the weakness in the EUR and GBP against the SGD in the past few months. However, we believe that the c.10% weakening in the EUR against the SGD in the last few months will lead to some downside risk to earnings.

On the other hand, the high inflation rates seen in Europe could lead to higher revenues as a large proportion of FLCT's leases in Europe are pegged to the CPI. This should help partially offset some the downside risk from FX.

#### **Our thoughts**

Considering the divestment of CSE, we have revised our projections to account for the lack of income contribution from the asset. Despite this, we understand that FLCT may look to tap on distribution of capital gains to buffer the absence of contribution from CSE. Currently, FLCT has an excess of S\$300m in capital reserves, and management has indicated their willingness to tap on it in the short term until accretive acquisitions are made.

Although cap rates for prime logistics assets continue to compress globally, FLCT may look to a combination of logistics and suburban office assets for its next accretive acquisition. We understand that there remain opportunities to acquire Grade A suburban offices in Australia at cap rates of between 4.5% to 5.5%. We also expect FLCT to continue its strategy of acquiring assets with development opportunities or other forward-funded development projects that provide better yields. Moreover, the divestment of CSE leaves a substantial cash balance on FLCT's balance sheet, and it has ample debt headroom to embark on future acquisitions. As such, we have assumed c.S\$350m in acquisitions at yields of 4.5% by the end of FY22.

With the revised earnings estimates, we have also taken the opportunity to be prudent and increase our risk-free rate assumptions to 3.0% in our DCF valuations. We will be maintaining our **BUY** recommendation with a revised TP of **S\$1.75**.

#### **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 101 properties across Australia, Singapore, Germany, the UK, and the Netherlands, totaling c.2.6m sqm. The appraised value of FLCT's portfolio was S\$6.7bn as of 31 March 2022.

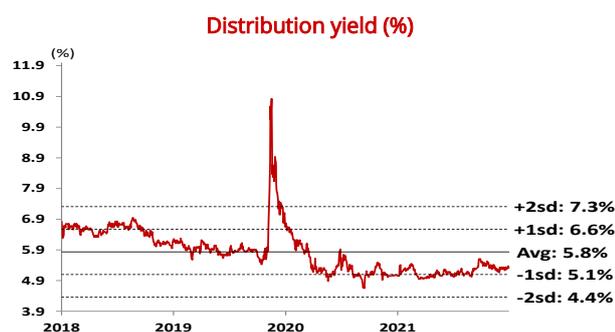
## Frasers Logistics &amp; Commercial Trust

## Interim Income Statement (\$m)

FY Sep	1H2021	2H2021	1H2022	% chg y-o-y	% chg h-o-h
Gross revenue	232	238	236	1.7	(0.8)
Property expenses	(51.9)	(50.8)	(52.1)	0.4	2.5
Net Property Income	180	187	184	2.1	(1.7)
Other Operating expenses	(22.6)	(25.0)	(25.7)	13.6	2.8
Other Non Opg (Exp)/Inc	0.97	0.08	0.15	(85.0)	78.0
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(23.4)	(21.4)	(22.3)	4.7	(4.3)
Exceptional Gain/(Loss)	2.45	0.0	170	nm	nm
<b>Net Income</b>	<b>137</b>	<b>141</b>	<b>305</b>	<b>122.5</b>	<b>117.4</b>
Tax	(20.9)	(120)	(18.0)	(13.6)	(85.0)
Minority Interest	(0.8)	(7.8)	(1.1)	(35.1)	(85.3)
<b>Net Income after Tax</b>	<b>116</b>	<b>12.7</b>	<b>286</b>	<b>147.8</b>	<b>2,152.2</b>
Total Return	116	616	286	147.8	(53.5)
Non-tax deductible Items	14.9	(479)	(151)	nm	(68.6)
Net Inc available for Dist.	130	136	136	4.0	(0.5)
<b>Ratio (%)</b>					
Net Prop Inc Margin	77.6	78.6	77.9		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

## Historical Distribution yield and PB band



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



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

## Fraser's Logistics &amp; Commercial Trust

## Income Statement (\$m)

FY Sep	2020A	2021A	2022F	2023F	2024F
Gross revenue	332	469	466	478	487
Property expenses	(62.2)	(103)	(88.8)	(91.0)	(92.8)
<b>Net Property Income</b>	<b>270</b>	<b>367</b>	<b>378</b>	<b>387</b>	<b>395</b>
Other Operating expenses	(33.4)	(47.6)	(50.2)	(53.3)	(51.0)
Other Non Opg (Exp)/Inc	(0.8)	1.05	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(40.9)	(44.8)	(49.1)	(51.7)	(51.7)
Exceptional Gain/(Loss)	1.42	2.45	0.0	0.0	0.0
<b>Net Income</b>	<b>196</b>	<b>278</b>	<b>278</b>	<b>282</b>	<b>292</b>
Tax	(71.7)	(141)	(30.6)	(31.0)	(32.1)
Minority Interest	(4.0)	(8.7)	(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>120</b>	<b>128</b>	<b>246</b>	<b>250</b>	<b>259</b>
Total Return	455	731	246	250	259
Non-tax deductible Items	(254)	(464)	38.0	41.0	38.5
Net Inc available for Dist.	201	270	285	291	297
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	37.9	41.4	(0.6)	2.5	1.9
N Property Inc Gth (%)	35.3	35.9	3.0	2.5	1.9
Net Inc Gth (%)	16.2	6.5	92.2	1.4	3.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	81.3	78.1	81.0	81.0	81.0
Net Income Margins (%)	36.3	27.3	52.8	52.3	53.0
Dist to revenue (%)	60.6	57.5	61.0	60.8	60.9
Managers & Trustee's fees	10.1	10.1	10.8	11.1	10.5
ROAE (%)	4.0	3.1	5.4	5.5	5.7
ROA (%)	2.3	1.8	3.3	3.4	3.4
ROCE (%)	2.9	2.2	4.0	4.1	4.1
Int. Cover (x)	5.8	7.1	6.7	6.5	6.6

Assumed c.\$350m of acquisitions to begin contribution from FY23.

Source: Company, DBS Bank

## Fraser's Logistics &amp; Commercial Trust

## Interim Income Statement (\$m)

FY Sep	2H2020	1H2021	2H2021	1H2022
Gross revenue	213	232	238	236
Property expenses	(44.9)	(51.9)	(50.8)	(52.1)
Net Property Income	168	180	187	184
Other Operating	(20.7)	(22.6)	(25.0)	(25.7)
Other Non Opg (Exp)/Inc	(2.7)	0.97	0.08	0.15
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(27.4)	(23.4)	(21.4)	(22.3)
Exceptional Gain/(Loss)	0.0	2.45	0.0	170
<b>Net Income</b>	<b>118</b>	<b>137</b>	<b>141</b>	<b>305</b>
Tax	(61.3)	(20.9)	(120)	(18.0)
Minority Interest	(3.2)	(0.8)	(7.8)	(1.1)
<b>Net Income after Tax</b>	<b>24.6</b>	<b>116</b>	<b>12.7</b>	<b>286</b>
Total Return	387	116	616	286
Non-tax deductible Items	(262)	14.9	(479)	(151)
Net Inc available for Dist.	125	130	136	136
<b>Growth &amp; Ratio</b>				
Revenue Gth (%)	N/A	9	3	(1)
N Property Inc Gth (%)	nm	7	4	(2)
Net Inc Gth (%)	nm	118	(89)	2,152
Net Prop Inc Margin (%)	78.9	77.6	78.6	77.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Capital gains from the divestment of CSE at a 28.3% premium to valuations.

## Balance Sheet (\$m)

FY Sep	2020A	2021A	2022F	2023F	2024F
Investment Properties	6,352	7,482	6,676	7,031	7,036
Other LT Assets	34.2	16.7	16.7	16.7	16.7
Cash & ST Invt	169	140	497	493	491
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	30.9	39.9	24.2	24.9	25.3
Other Current Assets	149	1.02	1.02	1.02	1.02
<b>Total Assets</b>	<b>6,735</b>	<b>7,680</b>	<b>7,215</b>	<b>7,567</b>	<b>7,570</b>
ST Debt	677	235	235	235	235
Creditor	86.7	96.6	24.2	24.9	25.3
Other Current Liab	21.0	29.6	30.6	31.0	32.1
LT Debt	1,944	2,447	2,052	2,402	2,402
Other LT Liabilities	199	253	253	253	253
Unit holders' funds	3,770	4,575	4,575	4,575	4,575
Minority Interests	36.2	44.8	46.1	47.3	48.5
<b>Total Funds &amp; Liabilities</b>	<b>6,735</b>	<b>7,680</b>	<b>7,215</b>	<b>7,567</b>	<b>7,570</b>
Non-Cash Wkg. Capital	71.9	(85.3)	(29.6)	(30.0)	(31.1)
Net Cash/(Debt)	(2,452)	(2,541)	(1,790)	(2,143)	(2,146)
<b>Ratio</b>					
Current Ratio (x)	0.4	0.5	1.8	1.8	1.8
Quick Ratio (x)	0.3	0.5	1.8	1.8	1.8
Aggregate Leverage (%)	38.9	34.9	31.7	34.8	34.8
Z-Score (X)	1.7	1.7	1.7	1.7	1.7

Assumed a c.\$350m acquisition by end FY22.

Source: Company, DBS Bank

## Fraser's Logistics &amp; Commercial Trust

## Cash Flow Statement (\$m)

FY Sep	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	196	278	278	282	292
Dep. & Amort.	0.0	(0.1)	0.0	0.0	0.0
Tax Paid	(18.4)	(31.1)	(27.1)	(30.6)	(31.0)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(28.6)	(9.5)	(59.3)	0.0	0.0
Other Operating CF	65.7	62.3	38.0	41.0	38.5
<b>Net Operating CF</b>	<b>215</b>	<b>299</b>	<b>230</b>	<b>293</b>	<b>299</b>
Net Invnt in Properties	(4.6)	(134)	806	(355)	(5.0)
Other Invnts (net)	(448)	(176)	0.0	0.0	0.0
Invnts 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	(0.9)	(15.2)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(453)</b>	<b>(325)</b>	<b>806</b>	<b>(355)</b>	<b>(5.0)</b>
Distribution Paid	(153)	(291)	(285)	(291)	(297)
Chg in Gross Debt	482	1.13	(395)	350	0.0
New units issued	0.0	331	0.0	0.0	0.0
Other Financing CF	(39.1)	(42.8)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>290</b>	<b>(2.3)</b>	<b>(680)</b>	<b>59.0</b>	<b>(297)</b>
Currency Adjustments	1.02	0.05	0.0	0.0	0.0
Chg in Cash	52.9	(28.3)	356	(3.4)	(2.7)
Operating CFPS (S cts)	7.13	8.87	7.83	7.86	7.98
Free CFPS (S cts)	6.15	4.75	28.0	(1.7)	7.84

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:	21 Jun 21	1.38	1.85	BUY
2:	12 Nov 21	1.51	1.85	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

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Dissemination Date: 9 May 2022 08:04:49 (SGT)

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

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