## MARKET NEWS

US stocks were mixed on Friday, as gains in the consumer discretionary, information technology and communication services sectors led shares higher and losses in the energy, financials and utilities sectors led shares lower. At the close of the NYSE, the DJIA fell 1.12% while the S&P 500 index was down 0.48%, and the NASDAQ Composite index rose 0.38%. Falling stocks outnumbered advancing ones on the NYSE by 2,137 to 749 and 97 ended unchanged; on the Nasdaq Stock Exchange, 2,880 declined and 1,382 advanced, while 198 ended unchanged. (Source: WSJ, Bloomberg)

During the last trading session, the FSSTI index fell 9.46pt to 3,061.85. Among the top active stocks were Singapore Telecommunications (-0.8%), Genting Singapore (-0.6%), Seatrium (-0.9%), Rex International (+3.4%) and Jiutian Chemical (+3.9%). The FTSE ST Mid Cap index rose 0.2% while the FTSE ST Small Cap Index was up 0.2%. The broader market saw 344 gainers and 257 losers with total trading value of S$883.5m.

## WHAT'S IN THE PACK

### Singapore Company Results:

**CapitaLand Integrated Commercial Trust - 3Q23: Resilient growth from both retail and office in Singapore.**

(CICT SP/BUY/S$1.74/Target: S$2.02)

Singapore provided resilient growth with office and retail leases registering positive rent reversions of 7.8% and 8.8% respectively in 3Q23. Retention…

**Mapletree Industrial Trust - 2QFY24: Osaka data centre to start contributing in 3QFY24.**

(MINT SP/BUY/S$2.13/Target: S$2.69)

MINT achieved positive rental revision of 8.8% in 2QFY24 for renewed leases across all property segments in Singapore. The acquisition of Osaka…

**Mapletree Logistics Trust - 2QFY24: Weathering near-term headwinds from China.**

(MLT SP/BUY/S$1.47/Target: S$1.72)

MLT achieved positive rental reversion of 0.6% and portfolio occupancy was stable at 96.9% in 2QFY24. Excluding China, positive rental reversion…

### Singapore Technical Analysis:

**Oversea-Chinese Banking Corp (OCBC SP) - Trading SELL**

Price was unable to penetrate its recent price high, and formed a potential lower high. A lower low could be forming if it violates its recent low of S$12.68…

**SATS (SATS SP) - Trading SELL**

Price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover as well. The MACD is bearish and is moving lower…

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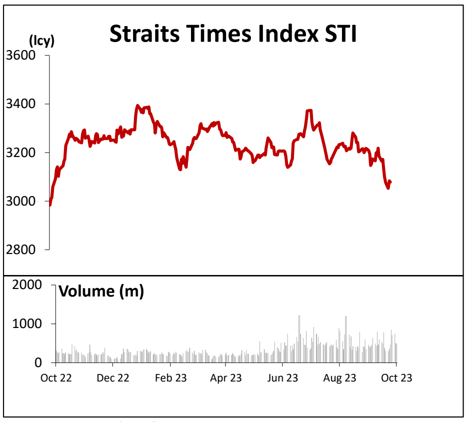
## PRICE CHART




## KEY INDICES

| | Prev Close | 1M % | YTD % |
|---|---|---|---|
| DJIA | 32417.6 | (3.3) | (2.2) |
| S&P 500 | 4117.4 | (4.0) | 7.2 |
| FTSE 100 | 7291.3 | (4.2) | (2.2) |
| AS30 | 6943.4 | (4.2) | (3.9) |
| CSI 300 | 3562.4 | (3.4) | (8.0) |
| FSSTI | 3061.9 | (4.8) | (5.8) |
| HSCEI | 5979.0 | (2.8) | (10.8) |
| HSI | 17398.7 | (2.3) | (12.0) |
| JCI | 6758.8 | (2.6) | (1.3) |
| KLCI | 1441.9 | 1.2 | (3.6) |
| KOSPI | 2302.8 | (6.6) | 3.0 |
| Nikkei 225 | 30991.7 | (2.7) | 18.8 |
| SET | 1388.2 | (5.7) | (16.8) |
| TWSE | 16134.6 | (1.3) | 14.1 |
| BDI | 1563 | (8.1) | 3.2 |
| CPO (RM/mt) | 3637 | (0.2) | (10.2) |
| Brent Crude (US$/bbl) | 89 | (6.2) | 4.1 |

*Source: Bloomberg*

## TOP TRADING TURNOVER

| Company | Price (S$) | Chg (%) | 5-day ADT (S$m) |
|---|---|---|---|
| United Overseas Bank | 27.03 | (0.9) | 91.1 |
| DBS Group Holdings | 33.13 | (0.0) | 80.2 |
| Oversea-Chinese Banking Corp | 12.76 | (0.7) | 46.2 |
| Singapore Telecommunications | 2.35 | (0.8) | 45.5 |
| Singapore Airlines | 6.06 | (2.4) | 37.4 |

## TOP GAINERS

| Company | Price (S$) | Chg (%) | 5-day ADT (S$m) |
|---|---|---|---|
| Hotel Properties | 3.84 | 6.4 | 0.0 |
| Bumitama Agri | 0.58 | 4.5 | 0.2 |
| Digital Core REIT Management | 0.50 | 4.2 | 1.1 |
| ESR-LOGOS REIT | 0.26 | 4.0 | 3.3 |
| CapitaLand Ascott Trust | 0.93 | 3.9 | 8.8 |

## TOP LOSERS

| Company | Price (S$) | Chg (%) | 5-day ADT (S$m) |
|---|---|---|---|
| Sri Trang Agro-Industry | 0.52 | (9.6) | 0.0 |
| Cromwell REIT SGD | 1.68 | (5.6) | 0.1 |
| Cromwell REIT EUR | 1.16 | (4.9) | 0.5 |
| Fraser And Neave | 1.00 | (2.9) | 0.0 |
| AIMS APAC REIT | 1.19 | (2.5) | 2.7 |

*ADT: Average daily turnover

TRADERS' CORNER


## Oversea-Chinese Banking Corp (OCBC SP)

Trading Sell Range: S$12.76-12.77

Last price: S$12.76

Target price: S$11.92

Protective stop: S$13.10

**Price was unable to penetrate its recent price high, and formed a potential lower high. A lower low could be forming if it violates its recent low of S$12.68. The MACD is moving lower after a bearish crossover. Price could be moving lower if it further breaks below its recent price low.**

The potential downside target is S$11.92. Stop-loss could be placed at S$13.10.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$18.22.


## SATS (SATS SP)

Trading Sell Range: S$2.43-2.44

Last price: S$2.43

Target price: S$2.27

Protective stop: S$2.50

**Price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover as well. The MACD is bearish and is moving lower. These could increase chances of the stock price moving lower.**

The potential downside target is S$2.27. Stop-loss could be placed at S$2.50.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$2.99.

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FROM THE REGIONAL MORNING NOTES...

## CapitaLand Integrated Commercial Trust (CICT SP)

### 3Q23: Resilient Growth From Both Retail And Office In Singapore

**Singapore provided resilient growth with office and retail leases registering positive rent reversions of 7.8% and 8.8% respectively in 3Q23. Retention rate was high at 82.9% for retail and 90.4% for office. CICT will stay defensive by optimising yield from its properties, including through asset enhancement initiatives. CICT provides 2024 distribution yield of 6.1%. Maintain BUY. Target price: S$2.02.**

3Q23 RESULTS

| Year to 31 Dec (S$m) | 3Q23 | yoy % chg | Remarks |
|---|---|---|---|
| Gross Revenue | | | |
| Retail | 142.3 | +2.0 | Benefitting from recovery in retail rents. |
| Office | 131.4 | +4.2 | Organic growth from existing properties. |
| Integrated Developments | 117.6 | +8.4 | Comprises Raffles City Singapore, Funan, Plaza Singapura and The Atrium. |
| Total | 391.3 | +4.6 | |
| Net Property Income (NPI) | | | |
| Retail | 98.8 | -1.1 | Affected by higher operating expenses, including utilities. |
| Office | 93.3 | -2.2 | New leases contribute to cash flow starting 2Q23. |
| Integrated Developments | 82.9 | +6.3 | |
| Total | 275.0 | +0.6 | |

*Source: CICT, UOB Kay Hian*

### RESULTS

- CapitaLand Integrated Commercial Trust (CICT) provided its 3Q23 business update:
- **Growth led by integrated developments.** Gross revenue and NPI increased 4.6% and 0.6% respectively in 3Q23 due to higher rental income from existing properties. Gross turnover rents range from 5% to 15% of gross rental income. Operating expenses rose in tandem with higher occupancy and shopper traffic. Integrated developments, comprising Raffles City, Funan, Plaza Singapura & The Atrium and CapitaSpring, registered growth in gross revenue and NPI of 8.4% and 6.3% yoy respectively.
- **Retail: Downtown malls outperforming and catching up.** CICT achieved positive rent reversions of 7.8% for its retail properties based on average to average basis in 9M23 (suburban: 7.4% and downtown: 8.4%). Retention rate was high at 82.9%. Leasing enquiries were mainly from the food & beverage, beauty & health and fashion sectors. Tenant sales psf increased 4.0% (suburban: 3.0% and downtown: 6.3%). Occupancy for its retail properties edged higher by 0.3ppt qoq to 99.0%.
- **Office: Resiliency from Singapore.** CICT achieved positive rent reversions of 8.8% for its office properties in 9M23. Retention rate was high at 90.4%. Leasing enquiries were mainly from the financial services, legal and manufacturing & distribution sectors. Average rent increased 0.4% qoq to S$10.45psf pm. Occupancy for its office properties improved 1.0ppt qoq to 96.4%, led by Singapore (+1.4ppt qoq to 98.0%). Overseas, occupancy was stable at 95.5% for Germany but eased 0.9ppt qoq to 87.7% for Australia.

KEY FINANCIALS

| Year to 31 Dec (S$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 1,305 | 1,442 | 1,558 | 1,609 | 1,624 |
| EBITDA | 862 | 947 | 1,013 | 1,051 | 1,062 |
| Operating profit | 862 | 947 | 1,013 | 1,051 | 1,062 |
| Net profit (rep./act.) | 1,083 | 723 | 745 | 714 | 716 |
| Net profit (adj.) | 813 | 756 | 745 | 714 | 716 |
| EPU (S$ cents) | 12.4 | 11.4 | 11.2 | 10.7 | 10.7 |
| DPU (S$ cents) | 10.4 | 10.6 | 10.6 | 10.6 | 10.6 |
| PE (x) | 14.0 | 15.3 | 15.5 | 16.3 | 16.3 |
| P/B (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| DPU Yld (%) | 6.0 | 6.1 | 6.1 | 6.1 | 6.1 |
| Net margin (%) | 83.0 | 50.2 | 47.8 | 44.4 | 44.1 |
| Net debt/(cash) to equity (%) | 57.2 | 66.3 | 65.9 | 65.7 | 65.6 |
| Interest cover (x) | 5.1 | 4.2 | 3.8 | 3.1 | 3.1 |
| ROE (%) | 8.1 | 5.2 | 5.3 | 5.1 | 5.1 |
| Consensus DPU (S$ cent) | n.a. | n.a. | 11.0 | 11.1 | 11.5 |
| UOBKH/Consensus (x) | - | - | 0.97 | 0.96 | 0.92 |

*Source: CapitaLand Integrated Commercial Trust, Bloomberg, UOB Kay Hian*

- **Integrated developments: Providing resiliency and diversification.** Committed occupancy for integrated developments was stable at 98.0% in 3Q23. CICT benefits from higher room rates at the two hotels at Raffles City Singapore and serviced residence at CapitaSpring, which provide an uplift from variable rents.

- **Prudent capital management.** Aggregate leverage is stable at 40.8% as of Sep 23. Average cost of debt was relatively stable at 3.3%. The bulk of refinancing for 2024 will occur in 2H24. Management estimated average cost of debt at 3.5-3.9% for 2024.

## STOCK IMPACT

- **Staying defensive due to heightened uncertainties.** CICT will stay defensive by optimising yield from its properties, including through asset enhancement initiatives, which supports valuations of its properties. Management will drive occupancy and rents higher, while managing operating cost prudently.

- **Retail market remains resilient.** Leasing activities remained strong, supported by retailers' optimism on consumer sentiment. Demand was driven by F&B operators and services (wellness and travel). Recovery for Orchard Road is supported by recovery in tourism due to strong pipeline of MICE events and sell-out concerts. Rents at Orchard Road increased by 3.8% yoy to S$35.75psf, while rents at suburban malls jumped by 3.1% yoy to S$31.45psf in 3Q23. CBRE expects higher retail rents in 2023 due to tourism recovery and below-average new retail supply.

- **Shadow office space significantly absorbed.** According to CBRE, rents for Grade A office space in core CBD increased 2.2% yoy and 0.4% qoq to S$11.85psf/month in 3Q23 as vacancy tightened significantly by 0.8ppt qoq to 3.2%. There was healthy demand from private wealth, asset management and consumer goods companies. The positive momentum was underpinned by limited supply, companies tightening hybrid work arrangements and completion of IOI Central Boulevard Towers being delayed to 1Q24. CBRE estimated that the amount of shadow space was halved to 0.33m sf compared to a record high of 0.7m sf in 1Q23. CBRE expects rents for Grade A office space in core CBD to increase 1.5-2.0% in 2023 (previous: flat).

- **Close to securing replacement tenant for Gallileo.** Management sees pick-up in leasing interest in Frankfurt from financial services, renewable energy and aviation sectors. Gallileo will undergo asset enhancement initiative (AEI) for 18 months after the lease with Commerzbank expires in Jan 24. CICT is in advanced negotiations with a prospective replacement tenant from the financial services industry.

## EARNINGS REVISION/RISK

- We trimmed our 2024 DPU forecast by 3% after fine-tuning cost of debt on refinancing borrowings of S$1,530m (15% of total borrowings).

## VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$2.02 is based on the Dividend Discount Model (cost of equity: 7.25%, terminal growth: 2.2%).

## SHARE PRICE CATALYST

- Steady recovery in shopper traffic and tenant sales at CICT's downtown malls driven by workers returning to offices and recovery in visitor arrivals.

- Asset enhancement and redevelopment of existing properties.

### KEY OPERATING METRICS – CICT

| | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | yoy % change | qoq % change* |
|---|---|---|---|---|---|---|---|
| DPU (S cents) | n.a. | 5.36 | n.a. | 5.30 | n.a. | n.a. | n.a. |
| NAV per unit (S$) | n.a. | 2.12 | n.a. | 2.12 | n.a. | n.a. | n.a. |
| Occupancy | 95.1% | 95.8% | 96.2% | 96.7% | 97.3% | 2.2ppt | 0.6ppt |
| Aggregate Leverage | 41.2% | 40.4% | 40.9% | 40.4% | 40.8% | -0.4ppt | 0.4ppt |
| All-in-Financing Cost | 2.5% | 2.7% | 3.1% | 3.2% | 3.3% | 0.8ppt | 0.1ppt |
| % Borrowing in Fixed Rates | 80% | 81% | 77% | 78% | 78% | -2ppt | 0ppt |
| WALE by Gross Rental | 3.8 | 3.7 | 3.7 | 3.6 | 3.5 | -0.3yrs | -0.1yrs |
| Debt Maturity | 4.1 | 3.9 | 4.2 | 4.3 | 4.1 | 0yrs | -0.2yrs |

*Source: CICT, UOB Kay Hian * hoh % chg for DPU and NAV per unit.*

FROM THE REGIONAL MORNING NOTES...

## Mapletree Industrial Trust (MINT SP)

2QFY24: Osaka Data Centre To Start Contributing In 3QFY24

**MINT achieved positive rental revision of 8.8% in 2QFY24 for renewed leases across all property segments in Singapore. The acquisition of Osaka data centre was completed on 28 Sep 23 (only three days of contributions in 2QFY24) and will contribute more meaningfully in 3QFY24. MINT provides FY24 distribution yield of 6.2% (DCREIT: 7.4% and KDCREIT: 5.9%). Maintain BUY. Target price: S$2.69.**

2QFY24 RESULTS

| Year to 31 Mar (S$m) | 2Q FY24 | yoy % chg | Remarks |
|---|---|---|---|
| Gross Revenue | 174.1 | -0.8 | Average rental rates in Singapore and North America increased 0.5% and |
| Net Property Income (NPI) | 128.6 | -1.4 | 0.4% qoq respectively. |
| Distributable income | 94.1 | +3.5 | Include capital distribution of S$3.2m. |
| DPU (S cent) | 3.32 | -1.2 | Number of units increased 4.8% yoy. |

*Source: MINT, UOB Kay Hian*

RESULTS

- Mapletree Industrial Trust (MINT) reported 2QFY24 DPU of 3.32 S cents (-1.2% yoy), which is in line with our expectations.
- **Resilient financial performance.** Gross revenue and NPI declined marginally by 0.8% and 1.4% yoy respectively in 2QFY24. Distribution declared by JV increased 23.4% yoy to S$8.5m. Distributable income, which included release of compensation from the compulsory acquisition of land at 2 and 4 Loyang Lane and divestment gain from 65 Tech Park Crescent, increased by a healthy 3.5% yoy.
- **Broad-based positive rental reversion.** MINT achieved positive rental revision of 8.8% for renewed leases across all property segments in Singapore in 2QFY24 (flatted factories: +9.9%, business park: +8.8%, stack-up/ramp-up buildings: +7.6% and hi-tech buildings: +4.7%). The average rental rate of the Singapore and North America portfolios increased 0.5% and 0.4% qoq respectively to S$2.19psf pm and US$2.42psf pm.
- **Portfolio occupancy was stable at 93.2%.** Occupancy for data centres improved 0.3ppt qoq to 93.4% due to the acquisition of the Osaka data centre. Occupancies for hi-tech buildings and flatted factories were stable at 84.8% and 98.8% respectively. Committed occupancy at Mapletree Hi-Tech Park@Kallang Way improved 4.1ppt qoq to 48.2%.
- **Osaka data centre to start contributing in 3QFY24.** MINT has completed the acquisition of a data centre in Osaka, Japan at a purchase consideration of ¥52.0b on 28 Sep 23 (only three days of contributions in 2QFY24). The data centre is being fitted out over four phases. The Osaka data centre provides long WALE of 19.1 years.

KEY FINANCIALS

| Year to 31 Mar (S$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Net turnover | 610 | 685 | 695 | 725 | 740 |
| EBITDA | 409 | 451 | 455 | 477 | 488 |
| Operating profit | 409 | 451 | 455 | 477 | 488 |
| Net profit (rep./act.) | 433 | 282 | 366 | 382 | 395 |
| Net profit (adj.) | 416 | 388 | 366 | 382 | 395 |
| EPU (S$ cent) | 16.1 | 14.6 | 13.3 | 13.8 | 14.3 |
| DPU (S$ cent) | 13.8 | 13.6 | 13.2 | 13.7 | 14.2 |
| PE (x) | 13.2 | 14.6 | 16.0 | 15.4 | 14.9 |
| P/B (x) | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |
| DPU Yld (%) | 6.5 | 6.4 | 6.2 | 6.4 | 6.7 |
| Net margin (%) | 71.0 | 41.1 | 52.7 | 52.6 | 53.4 |
| Net debt/(cash) to equity (%) | 45.6 | 47.6 | 47.5 | 47.3 | 47.1 |
| Interest cover (x) | 5.8 | 4.6 | 4.6 | 4.4 | 4.5 |
| ROE (%) | 9.4 | 5.3 | 6.8 | 7.1 | 7.3 |
| Consensus DPU (S$ cent) | n.a. | n.a. | 13.2 | 13.5 | 14.0 |
| UOBKH/Consensus (x) | - | - | 1.00 | 1.02 | 1.01 |

*Source: Mapletree Industrial Trust, Bloomberg, UOB Kay Hian*

- **Prudent capital management.** Aggregate leverage improved 0.3ppt qoq to 37.9% as of end-Sep 23. MINT issued two series of notes, ¥6.5b of 1.686% fixed-rate notes due 2035 (tenure: 12 years) and ¥10.0b of 1.85% fixed-rate notes due 2038 (tenure: 15 years), to fund the acquisition of a data centre in Osaka, Japan (equity: 40%, debt: 60%). Average cost of debt improved 0.3ppt qoq to 3.2%. Management guided average cost of debt at 3.2-3.5% for 2HFY24. Cost of debt is expected to increase slightly in FY25 due to replacement of expiring interest rate swaps.

## STOCK IMPACT

- **Outlook is clouded by geopolitical uncertainties** and tight financial conditions. Management will focus on tenant retention to ensure stable portfolio occupancy, while maintaining discipline in cost containment.
- **On the lookout for data centres to acquire.** Data centres in Japan provide positive yield spread with cap rates of 3-4%. MINT has the right of first refusal from the sponsor Mapletree Investments to acquire the remaining 50% stake in their second data centre, JV Mapletree Rosewood Data Centre Trust (MRODCT), which owns 13 data centres in the US. It is also keen to acquire high-tech, R&D and life science properties.
- **Asset recycling.** MINT is exploring the feasibility of recycling assets in Singapore to finance its expansion for data centres in Japan:
  a) Three business park properties at International Business Park (The Strategy and The Synergy) and Changi Business Park (The Signature). Valuation for the three business park properties was S$543m in aggregate as of Mar 23.
  b) Several flatted factories with shorter land tenure.
- **Increasing geographical diversification.** We like MINT's ongoing expansion to acquire data centres in Japan coupled with asset recycling in Singapore, which brings MINT closer to being a pure play on data centres. Tapping on funding in Japanese yen will also reduce its cost of debt.

## EARNINGS REVISION/RISK

- We trim our FY25 DPU forecast by 3.5% after fine-tuning our assumption for cost of debt.

## VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$2.69 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

## SHARE PRICE CATALYST

- Growth from data centres located in Japan and North America.
- Acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.
- Redevelopment projects in Singapore.

### KEY OPERATING METRICS – MINT

| | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | yoy % Chg | qoq % Chg |
|---|---|---|---|---|---|---|---|
| DPU (S cents) | 3.36 | 3.39 | 3.33 | 3.39 | 3.32 | -1.2% | -2.1% |
| Occupancy | 95.6% | 95.7% | 94.9% | 93.3% | 93.2% | -2.4ppt | -0.1ppt |
| Aggregate Leverage | 37.8% | 37.2% | 37.4% | 38.2% | 37.9% | 0.1ppt | -0.3ppt |
| Average Cost of Debt | 2.9% | 3.3% | 3.5% | 3.5% | 3.2% | 0.3ppt | -0.3ppt |
| % Borrowings in Fixed Rates | 74.2% | 74.3% | 75.5% | 78.0% | 79.2% | 5ppt | 1.2ppt |
| WALE by Gross Rental (years) | 4.0 | 3.9 | 3.9 | 3.9 | 4.2 | 0.2yrs | 0.3yrs |
| Average Debt Maturity (years) | 3.5 | 3.1 | 3.7 | 3.7 | 3.3 | -0.2yrs | -0.4yrs |
| Passing Rents (S$psf pm) | 2.15 | 2.15 | 2.16 | 2.18 | 2.19 | 1.9% | 0.5% |
| Tenant Retention | 86.5% | 92.2% | 80.7% | 83.0% | 83.2% | -3.3ppt | 0.2ppt |

*Source: MINT, UOB Kay Hian*

FROM THE REGIONAL MORNING NOTES...

## Mapletree Logistics Trust (MLT SP)

2QFY24: Weathering Near-term Headwinds From China

**MLT achieved positive rental reversion of 0.6% and portfolio occupancy was stable at 96.9% in 2QFY24. Excluding China, positive rental reversion was much higher at 9.1%. On a constant currency basis, revenue and NPI would have grown by a stronger 6.1% and 5.7% yoy respectively. Management cautioned that weakness for China could persist for the next 12 months. MLT provides FY24 distribution yield of 5.9% (FLT: 7.0%). Maintain BUY. Target price: S$1.72.**

2QFY24 RESULTS

| Year to 31 Mar (S$m) | 2Q FY24 | yoy % chg | Remarks |
|---|---|---|---|
| Gross Revenue | 186.7 | +1.5 | Affected by depreciation of CNY, JPY and AUD against the SGD. |
| Net Property Income (NPI) | 162.0 | +1.2 | |
| Distributable income | 112.5 | +4.2 | Includes distribution of divestment gains of S$8.8m. |
| DPU (S cent) | 2.268 | +0.9 | Number of units increased 3.3% yoy. |

*Source: MLT, UOB Kay Hian*

### RESULTS

- Mapletree Logistics Trust (MLT) reported 2QFY24 DPU of 2.268 S cents (+0.9% yoy), which is slightly above expectations.
- **Held back by strong Singapore Dollar.** Gross revenue and NPI grew 1.5% and 1.2% yoy respectively in 2QFY24 due to contributions from existing assets mainly in Singapore and Hong Kong, and recent acquisitions in Japan, Australia and South Korea. Growth was held back by depreciation of Chinese Yuan, Japanese Yen and Australian Dollar against the Singapore Dollar. On a constant currency basis, revenue and NPI would have grown by 6.1% and 5.7% yoy respectively.
- **Geographical diversification cushioned negative impact from China.** MLT signed new/renewed leases for 9.2m sf of logistics space in 2QFY24 and achieved positive rental reversion of 0.2%. China registered negative rental reversion of -8.6% due to weakness in Tier 2 cities. Excluding China, positive rental reversion was much higher at 9.1%. Logistics properties in Hong Kong, Singapore and South Korea generated strong positive rental reversions of 16.5%, 8.1% and 7.7% respectively.
- **Stable occupancies across markets.** Portfolio occupancy eased marginally by 0.2ppt qoq to 96.9%. Hong Kong, Malaysia, Vietnam, Australia and India have maintained near-full or 100% occupancy rates. There is transitional vacancy in Japan (-1.1ppt qoq to 98.9%), which is expected to be backfilled by 3QFY24.

**KEY FINANCIALS**

| Year to 31 Mar (S$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Net turnover | 679 | 731 | 743 | 754 | 771 |
| EBITDA | 503 | 512 | 532 | 558 | 572 |
| Operating profit | 503 | 512 | 532 | 558 | 572 |
| Net profit (rep./act.) | 767 | 550 | 350 | 324 | 333 |
| Net profit (adj.) | 179 | 279 | 310 | 324 | 333 |
| EPU (S$ cent) | 4.5 | 6.3 | 6.5 | 6.5 | 6.7 |
| DPU (S$ cent) | 8.8 | 9.0 | 8.7 | 8.0 | 8.0 |
| PE (x) | 32.7 | 23.4 | 22.8 | 22.5 | 22.0 |
| P/B (x) | 0.9 | 1.0 | 1.0 | 1.1 | 1.1 |
| DPU Yld (%) | 6.0 | 6.1 | 5.9 | 5.4 | 5.5 |
| Net margin (%) | 113.1 | 75.3 | 47.1 | 43.0 | 43.2 |
| Net debt/(cash) to equity (%) | 60.4 | 60.9 | 67.3 | 70.3 | 72.1 |
| Interest cover (x) | 5.4 | 4.2 | 3.8 | 3.4 | 3.4 |
| ROE (%) | 11.2 | 7.3 | 4.6 | 4.3 | 4.5 |
| Consensus DPU (S$ cent) | n.a. | n.a. | 8.7 | 8.7 | 8.9 |
| UOBKH/Consensus (x) | - | - | 1.00 | 0.92 | 0.90 |

*Source: Mapletree Logistics Trust, Bloomberg, UOB Kay Hian*

- **Prudent capital management.** Aggregate leverage eased slightly by 0.6ppt qoq to 38.9% as of Sep 23. Average cost of debt was stable at 2.5% in 2QFY24. 83% of MLT's total debt was hedged on fixed rates. Average debt duration is 3.8 years. Management guided average cost of debt at 3.0% in FY25.

### STOCK IMPACT

- **Stability from geographical diversification.** Outlook is clouded by geopolitical uncertainties and tight financial conditions. Rental rates across most of MLT's markets are expected to remain stable despite economic slowdown. Unfortunately, rental reversion in China is likely to remain negative in the near term.

- **Focus on portfolio rejuvenation through asset recycling.** MLT has completed S$904m of acquisitions, announced S$152m of divestments and working on S$370m of AEIs in 1HFY24 to rejuvenate its logistics portfolio.

- **Acquisition funded by divestments.** MLT is on the lookout for opportunities to acquire logistics properties in growth markets, such as India, Malaysia and Vietnam. Hong Kong and Japan are attractive due to tight supply, especially at prime locations. Australia and South Korea have experienced cap rate expansion but capital values remain elevated. Acquisitions will primarily be funded by proceeds from divestments.

- **Staying relevant by divesting older logistics properties.** MLT has divested five properties in Singapore (17% above valuation), Malaysia (11% above valuation) and Japan (12% above valuation) for an aggregate sale price of S$152m in 1HFY24. Total divestment gains are estimated at S$17.2m. Management targets to complete divestments of older logistics properties with low specifications worth S$500m over the next few years.

- **Consumer confidence remains weak in China.** Consumers were mainly preoccupied with spending on services and domestic tourism during the Golden Week in October. Management expects demand to be soft over the next 12 months. Management expects negative rental reversion at high single-digit to low teens. Occupancy eased marginally by 0.4ppt qoq to 93.0% 2QFY24 (Tier 1: 95% versus Tier 2: 92%).

### EARNINGS REVISION/RISK

- We trimmed our FY25 DPU forecast by 2% after fine-tuning our assumption for cost of debt.

### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$1.72 is based on Dividend Discount Model (cost of equity: 7.25%, terminal growth: 2.8%).

### SHARE PRICE CATALYST

- Accretive acquisitions to rejuvenate and reposition towards modern specifications logistics facilities, domestic consumption and e-commerce.

- Positive contributions from redevelopment projects.

### KEY OPERATING METRICS

| Key Metrics | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | yoy % chg | qoq % chg |
|---|---|---|---|---|---|---|---|
| DPU (S cents) | 2.248 | 2.227 | 2.268 | 2.271 | 2.268 | 0.9% | -0.1% |
| Occupancy | 96.4% | 96.9% | 97.0% | 97.1% | 96.9% | 0.5ppt | -0.2ppt |
| Aggregate Leverage | 37.0% | 37.4% | 36.8% | 39.50% | 38.90% | 1.9ppt | -0.6ppt |
| Weighted Financing Cost | 2.5% | 2.6% | 2.7% | 2.50% | 2.50% | 0ppt | 0ppt |
| % Borrowing in Fixed Rates | 82% | 83% | 84% | 82.0% | 83.0% | 1ppt | 1ppt |
| WALE by NLA (years) | 3.3 | 3.2 | 3.1 | 3.1 | 3.0 | -0.3yrs | -0.1yrs |
| Debt Maturity (years) | 3.6 | 3.6 | 3.8 | 3.8 | 3.8 | 0.2yrs | 0yrs |
| Rental Reversions | 3.5% | 2.9% | 3.1% | 4.2% | 0.2% | -3.3ppt | -4ppt |

*Source: MLT*

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