

### COMPANY RESULTS

## Frasers Logistics & Commercial Trust (FLT SP)

2HFY21: Benefitting From Revaluation Gains And Lower Cost Of Borrowings

**FLT benefitted from the acquisition of six European properties completed on 24 May 21 which provided more than four months of contributions. Cost of borrowings improved 0.3ppt yoy and 0.1ppt qoq to 1.6% due to lower base rates and lower interest rates for borrowings refinanced in 2HFY21. Valuation uplift was 9% or S\$603.9m and NAV per unit increased 12.7% yoy to S\$1.24. Distribution yield is attractive at 5.1% for FY22 and 5.2% for FY23. Maintain BUY. Target: S\$1.79.**

### 2HFY21 RESULTS

Year to 30 Sep (\$m)	2HFY21	yoy % chg	Remarks
Revenue	237.6	+11.4	Completed acquisition of six European properties on 24 May 21
Net Property Income (NPI)	181.3	+12.3	(more than four months of contributions).
Distributable Income	139.6	+11.8	Advanced distribution for period from 1 Apr to 2 Jun was 1.31 S cents.
DPU (cent)	3.88	+6.3	Latest distribution of 2.57 S cents to be paid on 16 Dec 21.

Source: FCT, UOB Kay Hian

### RESULTS

- Frasers Logistics & Commercial Trust (FLT) reported 2HFY21 DPU of 3.88 S cents (+6.3% yoy), which is in line with our expectations.
- **Growth from acquisitions and organic rental escalation.** Revenue and NPI increased 11.4% and 12.3% yoy respectively in 2HFY21 due to acquisition of six European properties completed on 24 May 21 (more than four months of contributions), which was partially offset by divestment of three leasehold logistics properties in South Australia.
- **Upward pressure on rents for logistics space.** FLT has completed 151,975sqm of new/renewed leases in 4QFY21. In Australia, rents for logistics space in Sydney, Melbourne and Brisbane increased 3.7%, 8.3% and 3.5% yoy respectively to A\$149, A\$102 and A\$119 per sqm per year. Rents in Germany and Netherlands are currently €90 and €85 per sqm per year respectively and there is upward pressure due to strong take-up and limited supply. However, market rents have generally not kept up with the recurrent and compounding annual escalation of 3.1%, which resulted in negative rental reversion of 3% in 4QFY21. The commercial portfolio achieved positive rental reversion of 0.2%, driven by positive rental reversion of 0.9% for properties in Singapore.
- **Logistics properties maintained full occupancy.** FLT's logistics properties in Australia, Europe and the UK maintained full occupancy at 100% as of Sep 21. Occupancy for commercial properties was stable at 91.5%. Occupancy at Central Park in Perth, Australia improved 2.1ppt qoq to 84.4% after completing asset enhancement initiative, offset by slight deterioration of 2.2ppt to 96.5% for Alexandra Technopark in Singapore.

### KEY FINANCIALS

Year to 30 Sep (\$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	8.0	8.1	8.2
PE (x)	34.4	41.8	21.3	21.1	20.8
P/B (x)	1.3	1.2	1.2	1.2	1.3
DPU Yld (%)	4.8	5.2	5.3	5.4	5.5
Net margin (%)	140.0	155.8	51.8	52.0	52.1
Net debt/(cash) to equity (%)	65.0	55.6	56.0	57.3	58.7
Interest cover (x)	5.8	7.1	7.0	7.1	7.1
ROE (%)	15.9	17.5	5.6	5.8	6.0
Consensus DPU (S\$ cent)	n.a.	n.a.	7.8	8.1	8.2
UOBKH/Consensus (x)	-	-	1.02	1.00	0.99

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

## BUY

(Maintained)

Share Price	S\$1.49
Target Price	S\$1.79
Upside	+20.1%

### 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):	3,676.4
Market cap (S\$m):	5,477.9
Market cap (US\$m):	4,064.6
3-mth avg daily t'over (US\$m):	9.8

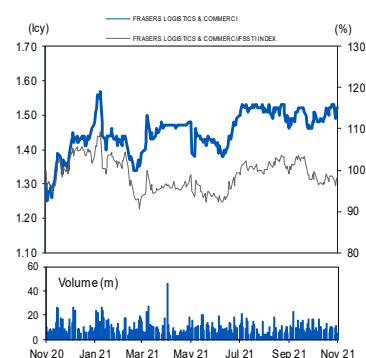
### Price Performance (%)

52-week high/low	S\$1.57/S\$1.25			
1mth	3mth	6mth	1yr	YTD
2.1	(2.6)	0.7	16.4	5.7

### 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

### ANALYST(S)

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- Core logistics portfolio recorded sizeable valuation gains.** FLT's portfolio saw uplift of 9% or S\$603.9m based on valuation as of Sep 21. Cap rates compressed by 105bp to 4.85% for logistics properties in Australia and by 46bp to 4.28% for Germany and Netherlands. The logistics portfolio benefitted from strong investment demand and growth from e-commerce. For the commercial portfolio, Central Park and Alexandra Technopark registered healthy gains of S\$21.7m (+7.1%) and S\$33m (+5.3%) respectively. NAV per unit increased 12.7% yoy to S\$1.24.
- Finance costs dropped 19.1% yoy** to S\$22.3m in 2HFY21. Cost of borrowings improved 0.3ppt yoy and 0.1ppt qoq to 1.6% due to lower base rates and lower interest rates for borrowings refinanced in 2HFY21.
- Well spread-out debt maturity profile.** Aggregate leverage was lowered by 2.7ppt qoq to 33.7% due to the valuation uplift. Interest coverage ratio improved 0.3x qoq to 7.3x. Borrowings due in 4QFY21 have been refinanced by 7-year fixed rate notes issuance of S\$150m at 2.18% under the Sustainable Finance Framework. Green and sustainability-linked financing accounted for 54% of total borrowings. 95% of the borrowings due in FY22 will mature in 2HFY22.

### STOCK IMPACT

- Sizeable sponsor pipeline supports future growth.** FLT has right of first refusal to acquire logistics properties with NLA of 2.0m sqm in the Asia Pacific region and Europe from sponsor Frasers Property (FPL). The acquisition pipeline is valued at more than S\$5b as of Jan 21. FPL is also actively developing more logistics properties and the sponsor pipeline expands at a rate of about S\$200m per year. We expect FLT to pursue strategic acquisitions of logistics properties in Europe and business park properties in the UK. In particular, FLT could leverage on low cost of €-denominated loans to finance acquisitions in Europe.
- Value creation through development.** Newly-acquired Blythe Valley Park located near Birmingham and within UK's Golden Triangle has 3 hectares of vacant land, which could be developed into additional logistics space. FLT plans to develop the site into four units of logistics warehouses. Management has conducted evaluation and expects the development to be viable.
- Similarly, Farnborough Business Park located in Thames Valley has an office development site (Plot C, Pinehurst III & IV), with planning permission for a commercial building with 18,000sqm of office space. Management is reviewing feasibility to redevelop the site into a last-mile e-commerce fulfilment centre instead given its proximity to Farnborough Airport and a high-density residential catchment.
- FLT is also looking at partnering sponsor FPL to develop logistics properties in Australia and Europe.
- Core holding included in major indices.** FLCT is a constituent of FTSE EPRA NAREIT Developed Index and FSSTI. Freehold properties made up 81.3% of FLCT's total assets under management (AUM). It has a long WALE of 4.8 years.

### EARNINGS REVISION/RISK

- We kept our DPU forecast relatively unchanged.

### VALUATION/RECOMMENDATION

- Buying yield and growth from logistics.** FLCT provides a distribution yield of 5.1% for FY22, much more attractive than Mapletree Logistics Trust's 4.0%. It trades at P/NAV of 1.34x compared with peers' 1.61x.
- 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

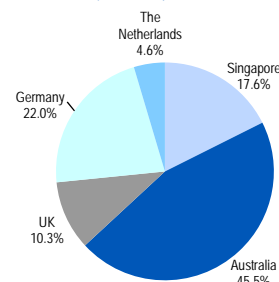
- Continued growth and expansion by tapping on sponsor pipeline.
- Development projects at Blythe Valley Park and Farnborough Business Park. Partnering sponsor FPL to develop logistics properties in Australia and Europe.

### KEY OPERATING METRICS - FLT

	1QFY21	2QFY21	3QFY21	4QFY21	yoy Chg	qoq Chg*
DPU (S cents)	n.a.	3.80	n.a.	3.88	6.3%	2.1%
Occupancy	97.2%	96.8%	96.3%	96.2%	-1.3ppt	-0.1ppt
Aggregate Leverage	36.2%	35.3%	36.4%	33.7%	-3.7ppt	-2.7ppt
Weighted All-in Financing Cost	1.9%	1.7%	1.9%	1.6%	-0.3ppt	-0.3ppt
% Borrowing in Fixed Rates	57.4%	70.6%	69.4%	72.8%	18.2ppt	3.4ppt
WALE by GRI (years)	4.8	4.7	4.9	4.8	-0.1yrs	-0.1yrs
Debt Maturity (years)	3.1	3.1	3.1	3.4	0.4yrs	0.3yrs
Rental Reversion	-6.9%	0.1%	0.8%	-2.3%	-2.2ppt	-3.1ppt

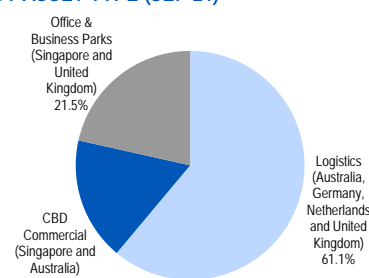
Source: FLT, UOB Kay Hian \* hoh % chg for DPU

### AUM BY COUNTRY (SEP 21)



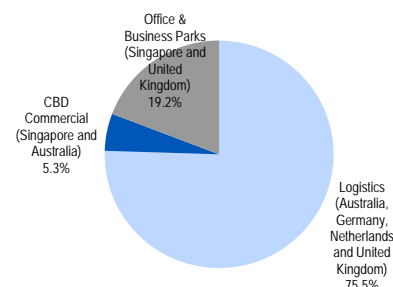
Source: FLCT

### AUM BY ASSET TYPE (SEP 21)



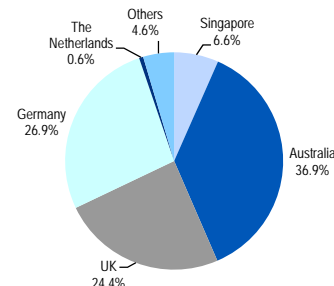
Source: FLCT

### 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)	(48.1)	(48.5)	(49.1)
Pre-tax profit	880.7	289.1	295.4	301.6
Tax	(140.9)	(28.9)	(29.5)	(30.2)
Minorities	(8.7)	(2.9)	(3.0)	(3.0)
Net profit	731.1	257.3	262.9	268.4
Net profit (adj.)	124.8	257.3	262.9	268.4

### 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	140.9	142.8	144.7
Other current assets	40.9	41.8	42.6	43.3
<b>Total assets</b>	<b>7,680.2</b>	<b>7,693.7</b>	<b>7,708.3</b>	<b>7,723.0</b>
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	2,450.0	2,490.0	2,530.0
Other LT liabilities	252.8	270.5	275.9	281.3
Shareholders' equity	4,574.6	4,538.4	4,501.8	4,465.1
Minority interest	44.8	47.7	50.7	53.7
<b>Total liabilities &amp; equity</b>	<b>7,680.2</b>	<b>7,693.7</b>	<b>7,708.3</b>	<b>7,723.0</b>

### CASH FLOW

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>299.4</b>	<b>346.2</b>	<b>316.6</b>	<b>323.0</b>
Pre-tax profit	880.7	289.1	295.4	301.6
Working capital changes	(2.9)	37.8	2.0	2.0
Non-cash items	(583.9)	35.5	35.7	35.9
Other operating cashflows	5.5	(16.1)	(16.5)	(16.6)
<b>Investing</b>	<b>(325.4)</b>	<b>(12.0)</b>	<b>(12.0)</b>	<b>(12.0)</b>
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
<b>Financing</b>	<b>(2.3)</b>	<b>(333.7)</b>	<b>(302.7)</b>	<b>(309.1)</b>
Distribution to unitholders	(152.0)	(293.5)	(299.4)	(305.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	485.1	2.8	40.0	40.0
Others/interest paid	(335.4)	(42.9)	(43.3)	(43.9)
<b>Net cash inflow (outflow)</b>	<b>(28.3)</b>	<b>0.5</b>	<b>1.9</b>	<b>1.9</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>168.7</b>	<b>140.4</b>	<b>140.9</b>	<b>142.8</b>
Changes due to forex impact	0.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>140.4</b>	<b>140.9</b>	<b>142.8</b>	<b>144.7</b>

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
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	52.1
ROA	10.1	3.3	3.4	3.5
ROE	17.5	5.6	5.8	6.0
<b>Growth</b>				
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	2.1
Net profit	57.3	(64.8)	2.2	2.1
Net profit (adj.)	4.1	106.2	2.2	2.1
EPU	(17.8)	95.9	1.4	1.3
<b>Leverage</b>				
Debt to total capital	36.7	36.9	37.4	38.0
Debt to equity	58.6	59.2	60.5	61.9
Net debt/(cash) to equity	55.6	56.0	57.3	58.7
Interest cover (x)	7.1	7.0	7.1	7.1

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