

## COMPANY UPDATE

### Frasers Logistics & Commercial Trust (FLT SP)

Logistics Portfolio Resilient But German Economy Could Be Achilles' Heel

**Germany imports 55% of its natural gas from Russia and its economy is besieged by surging energy prices that have increased 10x compared with pre-COVID-19 levels. Fortunately, FLT's Germany portfolio has a long WALE of 6.3 years and annual rental escalation is CPI-linked. Germany accounted for 22.9% of FLT's portfolio valuation as of Jun 22. Distribution yield is attractive at 5.8% for FY23. Maintain BUY but lowered target price to S\$1.60.**

#### WHAT'S NEW

- **German economy in limbo.** The German economy is slowing down due to supply chain disruptions, surging energy prices and the slowdown of its second largest export market — China. The auto manufacturing industry suffered the hardest hit. Germany is on the brink of slipping into a recession. Germany imports 55% of its natural gas from Russia through the North Stream pipeline. Energy prices have increased by 10x since the Russia-Ukraine war started and are 50% higher compared with neighbouring France. The Bundesbank warned that an immediate ban on Russian gas imports would reduce GDP growth by 5ppt, dragging Germany into a deep recession.
- **Prolonged stress from high energy prices and supply chain disruptions.** German foreign minister Annalena Baerbock cautioned that the Russia-Ukraine war could drag on for years. Heat wave and dry spells have lowered water levels on the Rhine, which hinders the movement of barges to transport raw materials and finished goods in Germany's most heavily industrialised areas, causing more supply chain disruptions.
- **Resiliency from limited supply.** The structural limited supply of logistics space and rising costs of land and building materials have fed into steep increase in asking rents. Prime rents have increased 7% to €96/sqm/year in 1H22. Financing costs have increased as reflected in the increase in yield for 10-year bunds, which reversed from -0.18% to 1.60% in 8M22. According to CBRE Group (CBRE), yields for prime logistics properties were pressured by higher interest rates and expanded 15bp to 3.15% in 1H22.
- The Germany portfolio has a long WALE of 6.3 years. It benefits from higher inflation as annual rental escalation is CPI-linked. Rental reversion was +3.3% in 1HFY22 (average vs. average). Occupancy was maintained at 100%.
- **Australia: Favourable demand-supply dynamics.** E-commerce penetration inched slightly higher by 0.3ppt hoh to 14.6% in 1H22. Vacancy rate declined 0.5ppt yoy to reach a record and global low of 0.8% in 1H22 (Brisbane: 2.3%, Melbourne: 1.1% and Sydney: 0.2%). The pipeline of new supply for 2022 is 53% pre-committed due to pent-up demand. Supply of logistics space is expected to fall in 2023 and beyond.
- **Logistics rents maintain an uptrend.** According to CBRE, super prime rose 13.1% on a nationwide basis in 2Q22 (Sydney: +22.8% yoy, Melbourne: +13.9% yoy and Brisbane: +3.7% yoy). Incentives fell 2ppt. CBRE expects super prime rents to grow at a CAGR of 5.0% during 2022-26.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	332	469	494	504	518
EBITDA	236	319	337	343	354
Operating profit	236	319	337	343	354
Net profit (rep./act.)	465	731	439	266	273
Net profit (adj.)	120	125	240	266	273
EPU (\$ cent)	4.3	3.6	6.5	7.2	7.3
DPU (\$ cent)	7.1	7.7	7.2	7.8	8.0
PE (x)	31.1	37.9	20.7	18.8	18.4
P/B (x)	1.2	1.1	1.0	1.1	1.1
DPU Yld (%)	5.3	5.7	5.3	5.8	5.9
Net margin (%)	140.0	155.8	88.9	52.8	52.7
Net debt/(cash) to equity (%)	65.0	55.6	39.0	44.5	45.3
Interest cover (x)	5.8	7.1	7.9	7.7	7.5
ROE (%)	15.9	17.5	9.4	5.6	5.8
Consensus DPU (\$ cent)	n.a.	n.a.	7.9	7.9	8.1
UOBKH/Consensus (x)	-	-	0.91	0.99	0.99

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

## BUY

(Maintained)

Share Price	S\$1.35
Target Price	S\$1.60
Upside	+18.5%
(Previous TP)	S\$1.65

#### 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):	3,696.2
Market cap (\$m):	4,989.8
Market cap (US\$m):	3,554.5
3-mth avg daily t'over (US\$m):	8.4

#### Price Performance (%)

52-week high/low		S\$1.53/S\$1.28		
1mth	3mth	6mth	1yr	YTD
(5.6)	0.0	(6.9)	(11.8)	(11.2)

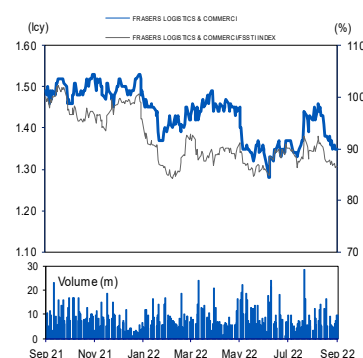
#### Major Shareholders

Frasers Property Industrial Trust	20.6
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FY22 NAV/Share (\$)	1.29
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FY22 Net Debt/Share (\$)	0.50
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#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Australia's portfolio has a long WALE of 4.2 years. It benefits from annual rental escalation averaging 3.1%. Rental reversion was +6-7% in 3QFY22 (average vs. average). Occupancy was maintained at 100%.

### SUPER PRIME LOGISTICS KEY METRICS – AUSTRALIA

		2022	yoy Chg	qoq Chg
New South Wales	Net Face Rents (Average)	A\$181	+22.8%	+10.4%
	Yields (Mid-point)	3.68%	-30bp	Unchanged
Victoria	Net Face Rents (Average)	A\$108	+13.9%	+6.2%
	Yields (Mid-point)	3.90%	-30bp	Unchanged
Queensland	Net Face Rents (Average)	A\$130	+3.7%	+2.0%
	Yields (Mid-point)	4.25%	-50bp	Unchanged

Source: CBRE

### STOCK IMPACT

- Divested CSE to pivot towards logistics.** Frasers Logistics & Commercial Trust (FLT) completed the sale of leasehold property at 18, 20 and 22 Cross Street, also known as Cross Street Exchange (CSE), for S\$810.8m in Mar 22. The consideration represents a 28.3% premium to book value of S\$632.0m as at Sep 21. The divestment of the non-core leasehold CBD commercial property is in line with FLT's portfolio rebalancing towards the logistics and industrial asset class. Assuming 49.2% of the net proceeds are used to repay outstanding debt, FLT's aggregate leverage is expected to be lowered by 4.4ppt from 33.7% to 29.3% on a pro forma basis. 50.8% of the net proceeds from divestment of CSE are expected to be deployed for acquisitions of logistics and business park properties.

- Reinvest in logistics properties and suburban office.** FLT has committed S\$290.5m of capital into acquisitions of one suburban office building, three completed logistics properties and one logistics property under development:

- FLT completed the acquisition of a freehold five-storey grade A suburban office building with NLA of 78,540sf at Mount Waverly, Melbourne for A\$60.3m in May 22. The property is fully leased to nine tenants, including two retail tenants on the ground level, with long WALE of 5.0 years.
- Acquisition of three freehold logistics properties in Truganina, an industrial precinct within the City of Monash at Melbourne West, for A\$61.0m. The properties were newly completed in May 22 and fully leased to four tenants with long WALE of 6.6 years and fixed annual rental escalation of 3.0%.
- Acquisition of a freehold logistics property to be developed at Ellesmere Port, Cheshire in Northwest England for £101.0m (S\$171.7m). The property sits on a 14.4ha site and has total NLA of 667,185sf. It is expected to complete in 2H23 and will be leased to Peugeot Motor, a subsidiary of global automaker Stellantis Group, for 15 years. The property will serve as the national distribution centre for Peugeot Motor in the UK.

### EARNINGS REVISION/RISK

- We cut FY22 DPU forecast by 6.5% to factor in divestment of CSE and raised FY23 DPU forecast by 3.0% to factor in contributions from recent acquisitions.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.60 is based on DDM (cost of equity: 7.25%, terminal growth: 2.5% (previous: 2.8%)).

### SHARE PRICE CATALYST

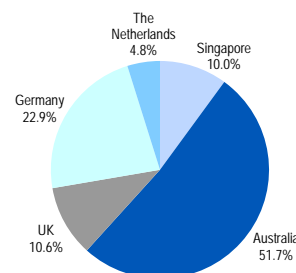
- Continued growth and expansion by tapping on sponsor pipeline of logistics and business park properties.
- Development projects at Blythe Valley Park and Farnborough Business Park. Partnering sponsor Frasers Property will develop logistics properties in Australia and Europe.

### KEY OPERATING METRICS – FLT

	1QFY22	2QFY22	3QFY22	yoy Chg	qoq Chg*
DPU (S cents)	n.a.	3.85	n.a.	n.a.	n.a.
Occupancy	96.9%	96.1%	96.5%	0.2ppt	0.4ppt
Aggregate Leverage	34.3%	33.1%	29.2%	-7.2ppt	-3.9ppt
Weighted All-in Financing Cost	1.6%	1.6%	1.6%	-0.1ppt	0ppt
% Borrowing in Fixed Rates	71.6%	71.3%	80.6%	11.2ppt	9.3ppt
WALE by GRI (years)	4.8	4.6	4.6	-0.3yrs	0yrs
Debt Maturity (years)	3.1	2.9	3.0	-0.1yrs	0.1yrs
Rental Reversion (Average vs Average)	+4.3%	+2.6%	+9.9%	n.a.	n.a.

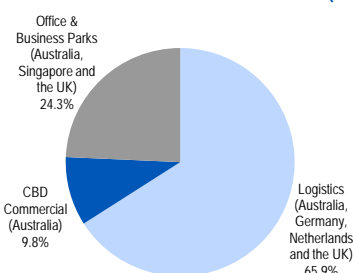
Source: FLT, UOB Kay Hian \* hoh % chg for DPU

### PORTFOLIO VALUATION BY COUNTRY (JUN 22)



Source: FLT

### PORTFOLIO VALUATION BY ASSET TYPE (JUN 22)



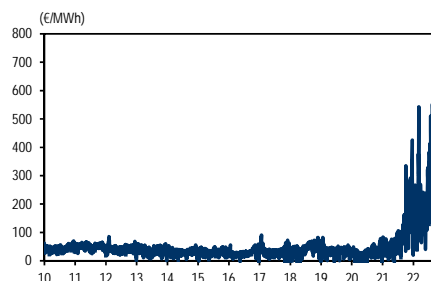
Source: FLT

### CONSUMER PRICE INDEX, YOY % CHG – GERMANY



Source: CEIC

### EXAA GERMANY DAY AHEAD BASELOAD ELECTRICITY SPOT PRICE



Source: Bloomberg

**PROFIT & LOSS**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Net turnover	469.3	493.8	503.7	518.2
EBITDA	319.1	336.8	343.3	354.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	319.1	336.8	343.3	354.2
Net interest income/(expense)	(44.8)	(42.7)	(44.6)	(47.1)
Pre-tax profit	880.7	493.1	298.7	307.0
Tax	(140.9)	(49.3)	(29.9)	(30.7)
Minorities	(8.7)	(4.9)	(3.0)	(3.1)
Net profit	731.1	438.9	265.9	273.3
Net profit (adj.)	124.8	239.9	265.9	273.3

**BALANCE SHEET**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,482.5	7,003.1	7,238.3	7,250.3
Other LT assets	16.5	16.5	16.5	16.5
Cash/ST investment	140.4	151.7	152.3	152.1
Other current assets	40.9	41.6	42.4	43.6
Total assets	7,680.2	7,212.8	7,449.5	7,462.5
ST debt	234.5	234.5	234.5	234.5
Other current liabilities	126.2	151.9	155.0	159.2
LT debt	2,447.2	1,770.0	2,020.0	2,045.0
Other LT liabilities	252.8	256.8	262.0	267.3
Shareholders' equity	4,574.6	4,749.8	4,725.3	4,700.7
Minority interest	44.8	49.7	52.7	55.8
Total liabilities & equity	7,680.2	7,212.8	7,449.5	7,462.5

**CASH FLOW**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Operating	299.4	310.4	315.6	326.6
Pre-tax profit	880.7	493.1	298.7	307.0
Working capital changes	(2.9)	23.7	1.9	2.8
Non-cash items	(583.9)	(176.0)	23.7	23.8
Other operating cashflows	5.5	(30.4)	(8.7)	(7.0)
Investing	(325.4)	679.3	(235.2)	(12.0)
Capex (growth)	(456.8)	(161.2)	(223.2)	0.0
Capex (maintenance)	(13.1)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	17.7	852.5	0.0	0.0
Others	126.9	0.0	0.0	0.0
Financing	(2.3)	(978.4)	(79.8)	(314.8)
Distribution to unitholders	(152.0)	(263.7)	(290.4)	(297.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	485.1	(677.2)	250.0	25.0
Others/interest paid	(335.4)	(37.5)	(39.4)	(41.9)
Net cash inflow (outflow)	(28.3)	11.3	0.6	(0.2)
Beginning cash & cash equivalent	168.7	140.4	151.7	152.3
Changes due to forex impact	0.1	0.0	0.0	0.0
Ending cash & cash equivalent	140.4	151.7	152.3	152.1

**KEY METRICS**

Year to 30 Sep (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	68.0	68.2	68.2	68.3
Pre-tax margin	187.6	99.9	59.3	59.2
Net margin	155.8	88.9	52.8	52.7
ROA	10.1	5.9	3.6	3.7
ROE	17.5	9.4	5.6	5.8
Growth				
Turnover	41.4	5.2	2.0	2.9
EBITDA	34.9	5.6	1.9	3.2
Pre-tax profit	62.9	(44.0)	(39.4)	2.8
Net profit	57.3	(40.0)	(39.4)	2.8
Net profit (adj.)	4.1	92.3	10.8	2.8
EPU	(17.8)	82.9	10.3	2.3
Leverage				
Debt to total capital	36.7	29.5	32.1	32.4
Debt to equity	58.6	42.2	47.7	48.5
Net debt/(cash) to equity	55.6	39.0	44.5	45.3
Interest cover (x)	7.1	7.9	7.7	7.5

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