

## SECTOR UPDATE

### REITs – Singapore

Logistics REITs Riding On E-commerce Growth Within ASEAN

Its strategic location and well-developed maritime and aviation infrastructure positions Singapore as an ideal hub to support e-commerce fulfilment. Logistics companies serving e-commerce platforms need a base in Singapore to be close to consumers within ASEAN. The transition to just-in-case supply chains is expected to increase inventories by 5-10%. BUY MLT (Target: S\$2.08) and FLT (Target: S\$1.60), which provide FY23 distribution yields of 5.2% and 5.6% respectively.

#### WHAT'S NEW

- **Singapore the ideal hub for e-commerce.** Singapore is the world's largest container transshipment hub, while Changi Airport is the largest air cargo hub in Southeast Asia and Southwest Pacific. Singapore was recognised as the top logistics hub in Asia for 10 consecutive years by the World Bank. The top 25 global logistics players have established a presence in Singapore. Singapore plans to be an e-commerce hub by strengthening digital infrastructure, cybersecurity and specialised capabilities, such as cold-chain management and pharmaceutical logistics.
- **ASEAN a lucrative market for e-commerce platforms.** The 10 countries of ASEAN have a total population of 700m, with 61% are under the age of 35. According to WEF, the number of high income (> US\$25k) and upper-middle income (US\$10-25k) households is projected to expand at a CAGR of 5.4% to 86m in 2030. ASEAN's combined GDP of US\$3.2t is already the fifth largest in the world and is on track to become the fourth largest by 2030. Home-grown e-commerce giants, such as Bukalapak, Lazada, Shopee and Tokopedia, are jostling to gain consumers' mindshare. According to Temasek and Google, the e-commerce market in Southeast Asia (Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam) is projected to expand by a CAGR of 26% and exceed US\$150b by 2025.
- **Speedy delivery is core advantage.** Millennials and dual-income households expect convenience, choice, reliability and immediacy. Competition between online retailers is intense. Efficient logistics is important as e-commerce platforms are under constant pressure to reduce delivery time to meet expectations of demanding consumers. Same-day shipping is also increasingly becoming more popular. To achieve this feat, logistics companies must secure prime logistics space close to end-consumers in Southeast Asia.
- **Building resiliency creates demand for more logistics space.** The US-China trade conflict and COVID-19 pandemic have caused disruptions and exposed the vulnerabilities of lean just-in-time supply chains. Efforts to enhance resiliency will lead to increased demand for logistics space:
  - a) Retailers have to hold higher levels of inventories to cushion against supply chain disruptions, which could lead to lost revenues. It is estimated that the transition from just-in-time to just-in-case supply chains would increase inventories by 5-10%. Many companies are stocking up on critical products and components to serve as buffer against potential disruption. However, the associated increase in demand could not be met due to lack of available logistics space.
  - b) Multi-national companies have adopted the "China + 1" strategy to weather the US-China trade conflict and reduce their over-reliance on China. Many have relocated production facilities from China to Southeast Asia, thus tapping on cost efficient manufacturing while maintaining proximity to the huge consumer market in Asia. Companies are diversifying their supplier bases to minimise concentration risks.

#### PEER COMPARISON – LOGISTICS REITS

Name	Bloomberg Code	Rec	Curr	Price 13 Sep 22	Target Price	Mkt Cap (US\$m)	HIST	CURR	FWD 1Y	FWD 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
ESR-LOGO REIT	EREIT SP	NR	S\$	0.40	n.a.	1,916	7.5	7.5	7.5	7.8	82.3	40.6	1.09
Frasers Logistics & Commercial	FLT SP	BUY	S\$	1.40	1.60	3,710	5.5	5.1	5.6	5.7	41.6	29.2	1.06
Mapletree Logistics Trust	MLT SP	BUY	S\$	1.75	2.08	6,026	5.0	5.2	5.2	5.3	71.4	37.2	1.19

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

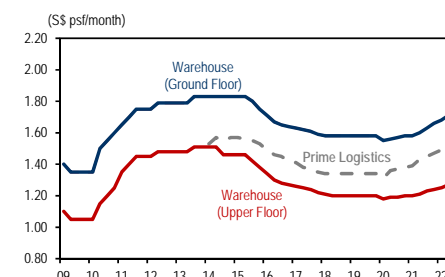
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#### SECTOR PICKS

Company	Rec	Share Price	Target Price
FLT	BUY	1.40	1.60
MLT	BUY	1.75	2.08

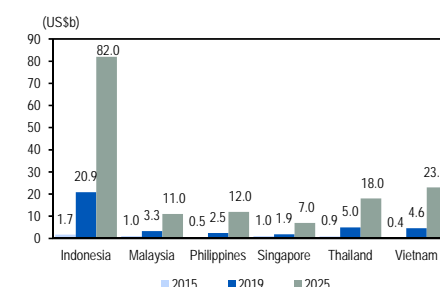
Source: UOB Kay Hian

#### LOGISTICS RENTS



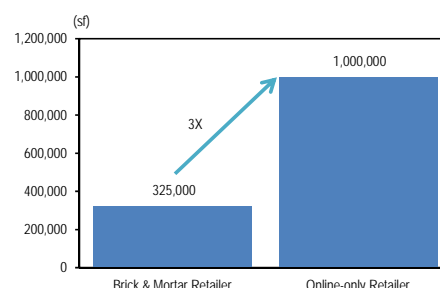
Source: CBRE

#### SOUTHEAST ASIA E-COMMERCE – GMV



Source: Google, Temasek

#### LOGISTICS SPACE PER US\$1B SALES



Source: Prologis Research

#### ANALYST(S)

**Jonathan Koh, CFA**  
+65 6590 6620  
jonathankoh@uobkayhian.com

### ACTION

- **Prime logistics deliver strong rental growth.** Rents for prime logistics space saw strong rental growth of 7.0% yoy and 2.7% qoq to S\$1.53psf/month in 2Q22. Rents for warehouse space at ground floor increased 6.9% yoy and 1.8% qoq to S\$1.71psf/month. Occupancy for warehouse space has improved 1.2ppt yoy to 90.9% in 2Q22. There is acute shortage of quality logistics space. Capital values for prime logistics space increased 15.1% yoy and 6.5% qoq to S\$213psf in 2Q22.
- **Demand exceeds supply.** The logistics market has absorbed the deluge of new supply in 2014 (7.3m sf) and 2017 (10.4m sf). The current pipeline of new supply is manageable at 5.91m sf over the next four years (2H22-25). The average annual supply of 1.76m sf during 2022-25 is 61% below the 10-year historical average of 4.50m sf (2012-21). Developers are pursuing redevelopment to meet the strong demand. Majority of logistics space under construction are pre-committed. There is no sizeable warehouse supply beyond 2023.

### Frasers Logistics & Commercial Trust (FLT SP/BUY/Target: S\$1.60):

- E-commerce penetration in Australia 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 Bundesbank warned that an immediate shutdown on Russian gas imports would reduce GDP growth by 5ppt, dragging Germany into a deep recession. Fortunately, FLT's Germany portfolio has a long WALE of 6.3 years and annual rental escalation is CPI-linked.
- Our target price of S\$1.60 is based on the dividend discount model (cost of equity: 6.25%, terminal growth: 2.0%).

### Mapletree Logistics Trust (MLT SP/BUY/Target: S\$2.08):

- MLT has embarked on the redevelopment of 51 Benoi Road in Singapore (completion: 4QFY25) and its Subang Jaya site in Selangor, Malaysia (completion: 2027).
- MLT's China portfolio has recovered from localised lockdowns. Leasing activities have resumed and demand for logistics space is expected to pick up rapidly in 3Q22. Key tenants, such as JD.com and Cainiao, are keen to renew their leases.
- Our target price of S\$2.08 is based on the dividend discount model (cost of equity: 6.0%, terminal growth: 2.0%).

### SECTOR CATALYSTS

- Growth of e-commerce and online retail sales in Southeast Asia.
- Transition from just-in-time to just-in-case supply chains.
- Moderation in supply of new logistics space.

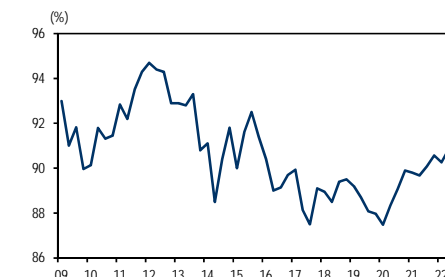
### ASSUMPTION CHANGES

- We maintained our existing earnings forecast.

### RISKS

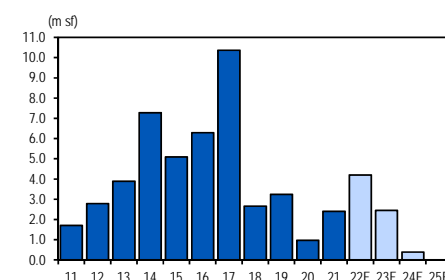
- Escalation of geopolitical tension and trade conflict between the US and China, including cross-straits tension between China and Taiwan.

### OCCUPANCY RATE – SINGAPORE



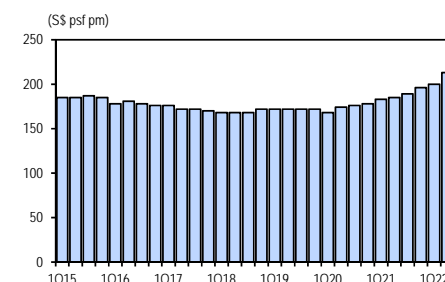
Source: CBRE

### FUTURE LOGISTICS SUPPLY – SINGAPORE



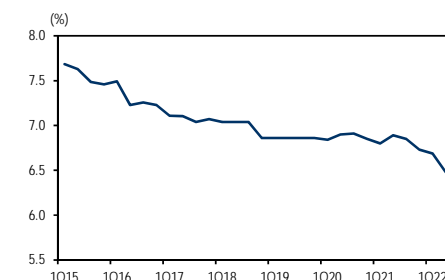
Source: CBRE

### PRIME LOGISTICS CAPITAL VALUE – SINGAPORE



Source: CBRE

### PRIME LOGISTICS NET YIELD – SINGAPORE



Source: CBRE

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