

COMPANY UPDATE

Frasers Logistics & Commercial Trust (FLT SP)

Continued Growth From Australia And Germany

FLT opportunistically deleveraged by divesting Cross Street Exchange for S\$811m in Mar 22. Cap rates have reversed to expansion of 110bp yoy in Australia and 75bp yoy in Germany. FLT has announced a small acquisition of four logistics properties in Germany for S\$189m. More acquisitions are forthcoming, supported by a sizeable sponsor pipeline and its low aggregate leverage of 30.7%. FLT provides an attractive distribution yield of 6.3% for FY24 (MLT: 5.7%). Maintain BUY. Target: S\$1.52.

WHAT'S NEW

- We like Frasers Logistics & Commercial Trust (FLT) for its exposure to growth in Australia and Germany, which accounted for 50.3% and 23.4% of its portfolio valuation respectively.
- **Australia: Resilient growth despite marginal pullback.** E-commerce penetration has stabilised at 12.8%. According to CBRE, growth in net face rents for prime logistics space has slightly moderated but remains significant at 22% and 25% yoy for Sydney and Melbourne respectively in 4Q23, compared with 11% for Brisbane. Vacancy rate has risen marginally but remains tight at 1.1% in 2H23, which is the lowest globally. Supply pipeline is projected to reach a new record-high of 3.7m sqm in 2023, an increase of 28% compared with 2.9m in 2022. The new supply is well absorbed with 40% already pre-committed.
- **Germany: Resiliency from efforts to build resilient supply chains.** Germany suffers from a structural shortage of logistics space, which has been further aggravated by developers reducing construction due to the high prices of land and construction costs. Geopolitical tensions and concerns over the resiliency of supply chains have prompted many manufacturers to bring production back home and closer to their customers. The trend of reshoring to build shorter and more resilient supply chains has led to increased demand from third-party logistics players in Germany. Demand is also boosted by sustainability-related manufacturing, such as electric vehicle batteries, and grocery and discount retailing.
- **Singapore: Prolonged downtime to backfill space vacated by Google.** Google Asia Pacific is an anchor tenant at Alexandra Technopark (ATP) and FLT's second largest tenant, which accounted for 4.1% of gross rental income in Dec 23. Google has decided to vacate from ATP due to the shift in strategy to refocus on AI. Google has returned 152,000sf in Feb 24 and plans to vacate from another 218,000sf in Dec 24, which accounts for 35% of ATP's total NLA. Downtime could be significant due to competition from a huge impending supply of 1.95m sf from Punggol Digital District (completion: end-24) and 1.13m sf from Geneo at Science Park (completion: 2Q25). FLT intends to reconfigure the space into smaller spec suites.
- **Euro zone the first to enter the easing cycle.** Economic growth is slowing in the euro zone with consumers holding back purchases, while companies are reducing capex. The European Central Bank (ECB) has lowered its GDP forecast from 0.8% to 0.6% for 2024. Inflation has receded rapidly from its peak of 10.6% in Oct 22. The ECB projected inflation at 2.3% in 2024 and 2.0% in 2025, inching ever closer to the target of 2.0%. Christine Lagarde, the president of ECB, guided the first rate cut in Jun 24 if forthcoming data on inflation and wages are in line with projections.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	450	421	423	444	453
EBITDA	301	270	282	297	304
Operating profit	301	270	282	297	304
Net profit (rep./act.)	729	(103)	191	197	202
Net profit (adj.)	131	234	191	197	202
EPU (S\$ cent)	3.5	6.3	5.1	5.2	5.3
DPU (S\$ cent)	7.6	7.0	6.6	6.7	6.7
PE (x)	29.9	16.9	20.8	20.4	20.1
P/B (x)	0.8	0.9	0.9	0.9	1.0
DPU Yld (%)	7.2	6.6	6.2	6.3	6.4
Net margin (%)	161.9	(24.5)	45.2	44.4	44.5
Net debt/(cash) to equity (%)	38.8	45.7	51.8	53.8	55.9
Interest cover (x)	7.4	6.0	4.2	3.9	3.9
ROE (%)	15.5	n.a.	4.4	4.6	4.8
Consensus DPU (S\$ cent)	n.a.	n.a.	7.0	7.0	7.2
UOBKH/Consensus (x)	-	-	0.94	0.95	0.94

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

BUY

(Maintained)

Share Price	S\$1.05
Target Price	S\$1.52
Upside	+44.8%
(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 in the Asia Pacific region and Europe.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FLT SP
Shares issued (m):	3,750.5
Market cap (S\$m):	3,938.1
Market cap (US\$m):	2,925.8
3-mth avg daily t'over (US\$m):	8.2

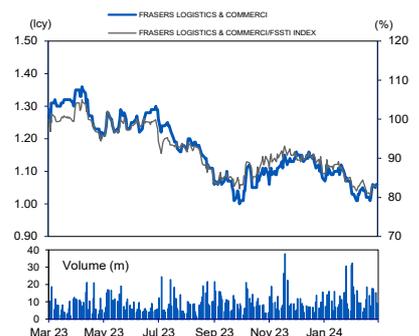
Price Performance (%)

52-week high/low	S\$1.36/S\$1.00			
1mth	3mth	6mth	1yr	YTD
(1.9)	(7.1)	(5.4)	(19.2)	(8.7)

Major Shareholders

Frasers Property Ltd	22.6
FY24 NAV/Share (S\$)	1.15
FY24 Net Debt/Share (S\$)	0.59

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Sizeable debt headroom to support acquisitions.** Aggregate leverage remained low at 30.7% as of Dec 23. FLT has a sizeable debt headroom of S\$1.1b for acquisitions before reaching aggregate leverage of 40%.
- **Rate cuts by ECB to curtail the rise in cost of debt.** Average of debt was 2.6% in 1QFY24. Management has guided cost of debt to be below 3% in FY24 and expects a slight increase in cost of debt in FY25. Euro-denominated debts accounted for a sizeable 49% of FLT's total borrowings. FLT would benefit from lower Euribor rates when it refinances euro-denominated borrowings of S\$529m that mature in June and August, which will then help to moderate the increase in cost of debt.

STOCK IMPACT

- **Resuming acquisition of logistics properties.** FLT has entered into a share purchase agreement with sponsor Frasers Property to acquire 89.9% interests in four logistics properties in Germany. The agreed property purchase price is €129.5m (\$188.9m), representing discounts of 5.3% and 1.1% to appraised valuations by Colliers and CBRE respectively. The four buildings have long WALE of 6.1 years and benefit from rent escalation with CPI-linked indexation. They are fully leased to multinational companies, such as Schenker, DACHSER and Hermes Germany, which are FLT's existing tenants.
- **Small acquisition was DPU accretive.** The three freehold assets (Egelsbach Property, Saarwellingen Property and Überherrn Property) are strategically located within the "Blue Banana" region, a major economic corridor in Europe. The Hamburg Property is close to the Port of Hamburg, the largest port in Germany. According to Colliers, growth of prime rents averaged 9% in 4Q23. Low vacancy rates and manageable supply is expected to continue exerting upward pressure on rents. Management estimated that the small acquisition is accretive to pro forma FY23 DPU by almost 1%. The acquisition is fully funded by euro-denominated debt at a cost of high-3%. The acquisition is expected to complete in Mar 24.
- **More sizeable acquisitions forthcoming.** Sponsor Frasers Property has a sizeable pipeline of logistics properties in Australia and Europe. In Australia (Sydney, Melbourne and Brisbane), it has 37 properties with NLA of 11.2m sf valued at S\$2,028m as of Sep 23. In Europe (Germany and the Netherlands), it has 22 properties with NLA of 6.6m sf valued at S\$771m. According to CBRE, cap rates have expanded 28bp qoq to 5.77% in 4Q23. The expansion was broad-based across Sydney (115bp yoy), Melbourne (105bp yoy) and Brisbane (108bp). Management estimates that cap rates have similarly expanded 75bp yoy in Germany.

EARNINGS REVISION/RISK

- **We trim our FY24 DPU forecast by 9% due to:** a) NPI margin narrowing to 77% due to lower occupancy for business park properties in the UK and ATP in Singapore, b) our assumption that 50% of space vacated by Google is backfilled in FY24 and 85% in FY25, and c) a higher cost of debt of 2.8% (FY23: 2.2%). We have factored in capital distribution of S\$15m in FY24, FY25 and FY26 (FY22: S\$15m, FY23: S\$25m). which is utilised to offset the negative impact from EUR and GBP

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.52 is based on DDM (cost of equity: 7.0%, terminal growth: 2.8%).

SHARE PRICE CATALYST

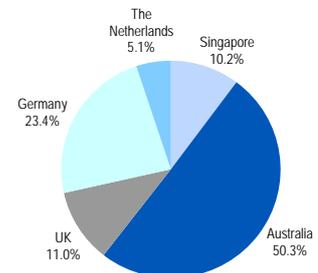
- Growth and expansion by tapping on sponsor pipeline of logistics properties in Australia and Europe.

KEY OPERATING METRICS – FLT

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	yoy chg	qoq chg*
DPU (S cents)	n.a.	3.52	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy	95.9%	95.9%	96.2%	-0.1ppt	-0.2ppt	-0.1ppt	-0.2ppt
Aggregate Leverage	27.9%	27.8%	28.6%	2.8ppt	0.5ppt	2.8ppt	0.5ppt
All-in Financing Cost	1.7%	1.8%	2.0%	0.9ppt	0.2ppt	0.9ppt	0.2ppt
% Borrowing in Fixed Rates	78.7%	76.2%	75.4%	-1.9ppt	-0.4ppt	-1.9ppt	-0.4ppt
WALE by GRI (years)	4.6	4.5	4.4	-0.2yrs	0.1yrs	-0.2yrs	0.1yrs
Debt Maturity (years)	2.7	2.4	2.2	-0.7yrs	-0.2yrs	-0.7yrs	-0.2yrs
Rental Reversion	11.0%	23.2%	21.4%	7.2ppt	-0.7ppt	7.2ppt	-0.7ppt

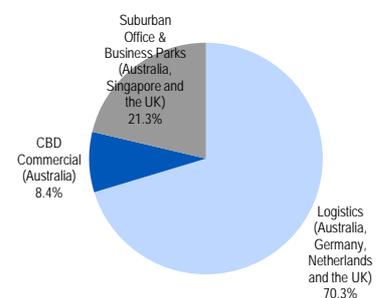
Source: FLT, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY COUNTRY



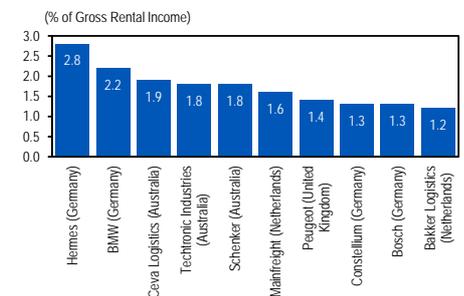
Source: FLT

PORTFOLIO VALUATION BY ASSET TYPE



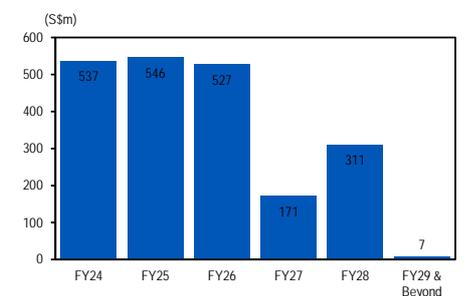
Source: FLT

TOP 10 LOGISTICS TENANTS



Source: FLT

DEBT MATURITY PROFILE



Source: FLT

PROFIT & LOSS

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Net turnover	420.8	422.9	444.0	453.3
EBITDA	270.2	281.5	297.4	304.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	270.2	281.5	297.4	304.3
Net interest income/(expense)	(45.1)	(67.0)	(76.0)	(77.8)
Pre-tax profit	(111.9)	214.6	221.4	226.5
Tax	6.6	(21.5)	(22.1)	(22.6)
Minorities	2.3	(2.1)	(2.2)	(2.3)
Net profit	(103.0)	191.0	197.0	201.6
Net profit (adj.)	234.0	191.0	197.0	201.6

CASH FLOW

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Operating	302.3	276.0	280.0	285.2
Pre-tax profit	(111.9)	214.6	221.4	226.5
Working capital changes	(4.6)	13.6	2.3	1.0
Non-cash items	381.8	36.6	36.9	37.2
Other operating cashflows	37.0	11.3	19.4	20.6
Investing	(128.3)	(200.9)	(12.0)	(12.0)
Capex (growth)	0.0	(188.9)	0.0	0.0
Capex (maintenance)	(161.3)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	31.2	0.0	0.0	0.0
Others	1.7	0.0	0.0	0.0
Financing	(243.1)	(73.7)	(265.6)	(272.2)
Distribution to unitholders	(271.0)	(246.5)	(252.9)	(257.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	78.0	236.5	60.0	60.0
Others/interest paid	(50.1)	(63.7)	(72.7)	(74.5)
Net cash inflow (outflow)	(69.1)	1.4	2.4	1.0
Beginning cash & cash equivalent	220.7	152.7	154.2	156.6
Changes due to forex impact	1.2	0.0	0.0	0.0
Ending cash & cash equivalent	152.7	154.2	156.6	157.6

BALANCE SHEET

Year to 30 Sep (\$m)	2023	2024F	2025F	2026F
Fixed assets	6,649.5	6,850.4	6,862.4	6,874.4
Other LT assets	79.9	79.9	79.9	79.9
Cash/ST investment	152.7	154.2	156.6	157.6
Other current assets	55.5	48.5	50.2	51.0
Total assets	6,937.7	7,133.0	7,149.1	7,162.9
ST debt	522.8	522.8	522.8	522.8
Other current liabilities	86.4	91.2	95.1	97.1
LT debt	1,633.5	1,870.0	1,930.0	1,990.0
Other LT liabilities	269.9	277.3	283.2	288.9
Shareholders' equity	4,379.7	4,324.1	4,268.2	4,212.1
Minority interest	45.3	47.5	49.7	52.0
Total liabilities & equity	6,937.7	7,133.0	7,149.1	7,162.9

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	64.2	66.6	67.0	67.1
Pre-tax margin	(26.6)	50.7	49.9	50.0
Net margin	(24.5)	45.2	44.4	44.5
ROA	n.a.	2.7	2.8	2.8
ROE	n.a.	4.4	4.6	4.8
Growth				
Turnover	(6.5)	0.5	5.0	2.1
EBITDA	(10.3)	4.2	5.6	2.3
Pre-tax profit	(113.0)	n.a.	3.2	2.3
Net profit	(114.1)	n.a.	3.2	2.3
Net profit (adj.)	78.7	(18.4)	3.2	2.3
EPU	77.3	(19.1)	2.2	1.4
Leverage				
Debt to total capital	32.8	35.4	36.2	37.1
Debt to equity	49.2	55.3	57.5	59.7
Net debt/(cash) to equity	45.7	51.8	53.8	55.9
Interest cover (x)	6.0	4.2	3.9	3.9

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