

29 July 2020

Property | REITS

## ARA Logos Logistics Trust (ALLT SP)

**Buy** (Maintained)

### Beneficiary Of Rising Logistics Demand; BUY

Target Price (Return): SGD0.72 (+13%)  
Price: SGD0.64  
Market Cap: USD500m  
Avg Daily Turnover (SGD/USD) 1.20m/0.86m

- **Maintain BUY with new TP of SGD 0.72 from SGD 0.64, 13% upside and c.8% yield.** 2Q update showed strong demand for logistics assets and highlighted a positive structural shift on the back of COVID-19. With LOGOS' entry as a sponsor, the REIT has now a good pipeline of assets to acquire and grow aside from beefed up operations. We believe the REITs high yield will appeal to investors in current market conditions.
- **Acquisition of sponsor's assets likely in next 6-12 months.** Management reiterated that the entry of LOGOS as a sponsor has greatly increased ARA LOGOS Logistics Trust's acquisition scope and potential. LOGOS is a leading logistics player in Asia Pacific with >6m sqm of property owned and under development (completed value SGD9.4bn) across 20 ventures. We believe some of LOGOS' Australian assets (Total AUM: c.USD3bn) could be key a near-term acquisition target for as it already has an established market presence and fits well with management's objective of adding freehold assets. With gearing at 40.4%, any potential acquisition is likely to be a combination of equity and debt.
- **Strong demand for logistics assets pushes up Singapore occupancy.** As highlighted in our 19 May thematic report [STAY: Alive | Home | Healthy | Online](#), the logistics sector has emerged as one of the main beneficiaries of COVID-19, with increased demand from stockpiling and the e-commerce segment. While some of the new leases are on a short-term basis, management sees this demand continuing well into next year, with some leading to structural changes in supply chain management. Overall, SG occupancy rose 1.4ppts QoQ to 98.6% from strong demand while Australia occupancy fell 2.2ppts QoQ to 94.7%. Management noted that Australia vacancy is transitional in nature and due to the movement of a single tenant. With strong leasing momentum, only c.5% of leases are pending renewal this year. 1H20 rent reversions stood at -0.5% and we expect it to be flattish for rest of the year.
- **COVID-19 measures impact.** In 2Q20, management released SGD0.5m of the SGD 2.5m income retained in 1Q20 noting that it sees SGD2m as a sufficient buffer for potential tenant relief. About 38% of SG tenants are SMEs but ALLT is awaiting clarity on exact number of tenants that qualify for mandatory one month relief under the COVID-19 Bill. In Australia, only two tenants qualify under the government code of conduct for rent relief.
- **Appointment of Karen Lee as new CEO** effective 15 Aug 2020 following the retirement of Daniel Cerf. Ms Lee will relinquish her present post as head of Asset & Investment Management of LOGOS SE Asia Pte Ltd.
- **Earnings and TP adjustments.** We revise up FY20F-22F DPU by 1-4% on the back of higher occupancy assumptions. Our COE assumption is also lowered by 40bps, with logistics being the least impacted by COVID-19.

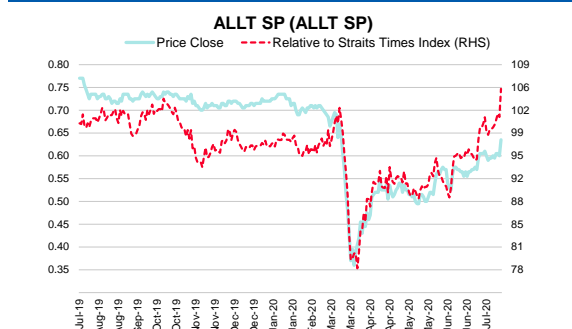
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.2)	12.4	21.0	(10.6)	(17.0)
Relative	8.7	13.2	20.2	8.2	6.2
52-wk Price low/high (SGD)				0.36 – 0.77	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	122	114	116	121	127
Net property income (SGDm)	90.9	85.8	86.7	91.1	95.0
Reported net profit (SGDm)	25.9	(8.0)	25.1	55.4	64.7
Total distributable income (SGDm)	58.4	57.7	56.1	61.6	62.7
DPS (SGD)	0.06	0.06	0.05	0.05	0.05
DPS growth (%)	(9.6)	(6.7)	(12.7)	8.1	5.3
P/B (x)	0.96	1.08	1.14	1.16	1.17
Dividend Yield (%)	9.3	8.7	7.6	8.2	8.6
Return on average equity (%)	3.5	(1.2)	4.0	9.2	10.7
Return on average assets (%)	2.0	(0.6)	1.9	4.1	4.8

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary						
Singapore	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F		
Property	Recurring EPS (SGD)	0.02	-	0.01	0.02	0.05	0.06
ARA Logos Logistics Trust	EPS (SGD)	0.02	-	0.01	0.02	0.05	0.06
ALLT SP	DPS (SGD)	0.06	0.06	0.05	0.05	0.05	0.05
Buy	BVPS (SGD)	0.66	0.59	0.55	0.55	0.54	0.54
	Return on average equity (%)	3.5	(1.2)	4.0	9.2	10.7	10.7
	Weighted avg adjusted shares (m)	1,072.18	1,082.85	1,093.96	1,105.19	1,116.52	1,116.52
Valuation basis							
DDM							
Key drivers							
i.	Logistics/warehouse sector to remain relatively resilient amid changing consumer patterns;						
ii.	The entry of Logos provides added operational and growth advantage; and						
iii.	Investors continued appetite for yields						
Key risks							
i.	Continued pressure in rents from new supply;						
ii.	Spike in tenant defaults; and						
iii.	Relocation of tenants to cheaper markets.						
Company Profile							
ARA Logos Logistics Trust is a Singapore-based REIT. The REIT invests in income-producing real estate used for logistics purposes in Asia-Pacific, as well as real estate-related assets.							

Income statement (SGDm)		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover		122	114	116	121	127
EBITDA		81	76	76	80	84
Depreciation and amortisation		(1)	(0)	0	0	0
Operating profit		80	75	76	80	84
Net interest		(18)	(21)	(22)	(23)	(23)
Pre-tax profit		28	(6)	27	57	67
Taxation		(3)	(2)	(2)	(2)	(2)
Recurring net profit		26	(8)	25	55	65
Cash flow (SGDm)		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Cash flow from operations		83	77	75	79	85
Capex		(5)	(3)	(3)	(3)	(3)
Cash flow from investing activities		(110)	(42)	(3)	(3)	(3)
Dividends paid		(64)	(59)	(53)	(55)	(59)
Cash flow from financing activities		49	(56)	(76)	(72)	(85)
Cash at beginning of period		15	33	15	13	20
Net change in cash		22	(21)	(4)	3	(3)
Ending balance cash		36	12	11	17	16
Balance sheet (SGDm)		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents		33	15	13	20	19
Total investments		1,269	1,334	1,322	1,325	1,334
Total other assets		1	1	1	1	1
Total assets		1,310	1,359	1,343	1,352	1,360
Short-term debt		28	113	0	0	0
Total long-term debt		442	397	528	540	545
Total liabilities		495	618	634	647	653
Shareholders' equity		713	639	607	603	606
Total equity		815	741	709	704	708
Net debt		437	495	514	521	526
Total liabilities & equity		1,310	1,359	1,343	1,352	1,360
Key metrics		Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)		8.6	(6.6)	1.8	5.1	4.2
Recurrent EPS growth (%)		(1.9)	(130.4)	0.0	118.0	15.6
Operating EBITDA margin (%)		66.3	66.8	65.7	65.9	66.1
Net profit margin (%)		21.3	(7.0)	21.7	45.6	51.1
Dividend payout ratio (%)		244.9	(750.7)	209.7	104.0	94.7
Capex/sales (%)		4.2	2.3	2.3	2.2	2.1
Interest cover (x)		4.33	3.51	3.47	3.53	3.57

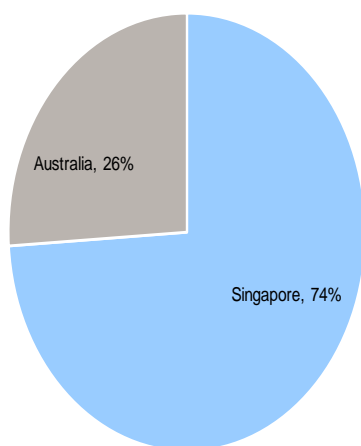
Source: Company data, RHB

Figure 1: ALLT's fair value based on Dividend Discount Model

	FY20F	FY21F	FY22F	FY23F	Terminal value
DPU (SG cents)	4.82	5.21	5.49	5.65	75.4
<b>Fair value (SGD)</b>	<b>0.72</b>				
Current price (SGD)	0.64				
Price upside (%)	12.5				
Distribution yield (%)	7.6				
<b>Assumptions</b>					
Risk-free rate: (%)	2.8				
Beta	1.0				
Cost of equity (%)	8.6				
Terminal growth: (%)	1.0				

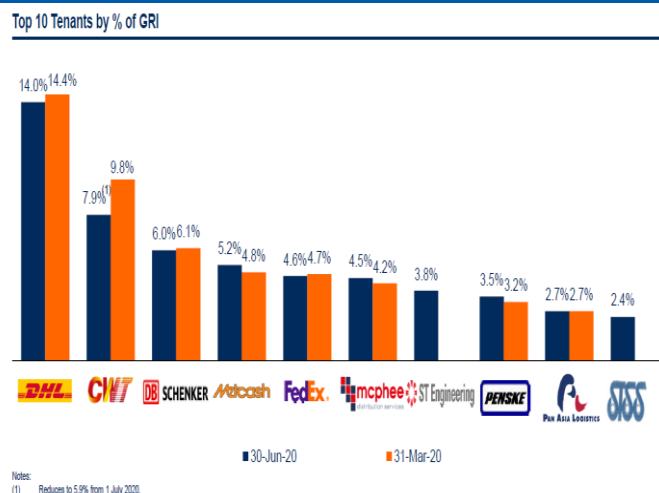
Source: RHB

Figure 2: 1H20 revenue breakdown by geography



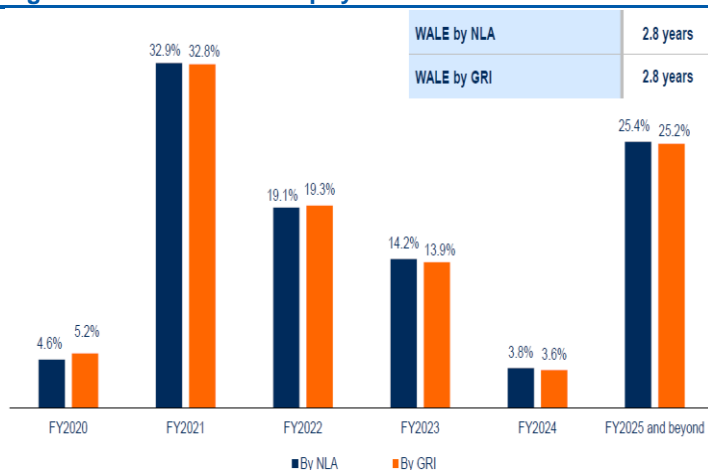
Source: Company data

Figure 3: Top 10 tenants account for 55% of gross Income



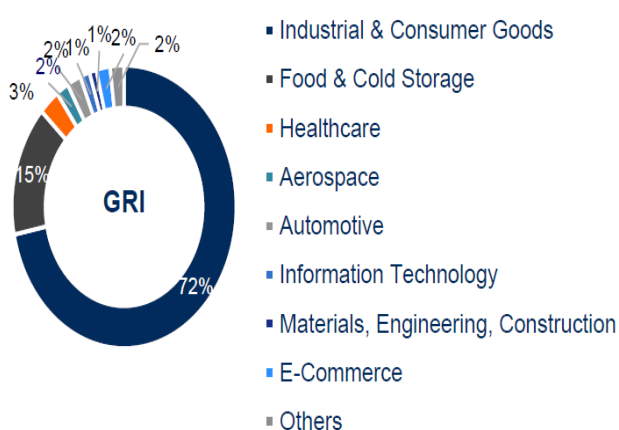
Source: Company data

Figure 4: Minimal lease expiry due for 2020



Source: Company data

Figure 5: Tenant trade sectors



Source: Company data

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-29	Buy	0.64	0.53
2020-03-09	Buy	0.74	0.64
2019-07-26	Buy	0.80	0.77
2019-06-17	Buy	0.83	0.78
2019-01-28	Buy	0.81	0.74
2018-10-29	Buy	0.84	0.71
2018-04-26	Buy	na	0.83
2018-02-01	Buy	0.98	0.88

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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