

7 June 2024

Property | REITS

ESR-LOGOS REIT (EREIT SP)

Buy (Maintained)

On The Right Trajectory; BUY

Target Price (Return): SGD0.35 (20.7%)
 Price (Market Cap): SGD0.29 (USD1,655m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 2.56m/1.90m

- **Keep BUY, lower SGD0.35 TP (from SGD0.38), 21% upside, c.8% yield.** ESR-LOGOS REIT remains in healthy financial shape, benefitting from its divestment and asset repositioning strategy which has helped it weather the current high interest rate environment. Portfolio recycling and rejuvenation is expected to continue, with selective acquisitions from the sponsor's asset pipeline. Operationally, its logistics portfolio continues to do well, offsetting some weakness in business parks with continued positive double-digit rent reversions. EREIT is trading at a c.10% discount to book value.
- **Active portfolio recycling to stay.** In April, EREIT completed the divestment of 182-198 Maidstone Street in Victoria for AUD66m (c.SGD58m), at a 7.4% premium to the latest valuation and c.20% premium to the purchase price (Apr 2022). The key reason for the divestment, in our view, is the asset's low exit yield of 2.5%, which is well below its borrowing cost of 4.1%, making it yield accretive. With this, EREIT has divested 17 assets since 2021, raising its total divestment proceeds to SGD663m (Figure 2). More divestments are anticipated this year, with management guiding for SGD200-300m in value for 2024. Post-divestment gearing is healthy at 36.3%, providing ample debt headroom for some targeted acquisitions. Proceeds have been used for targeted buybacks, with 11.4m shares repurchased at SGD0.299/unit in 1Q.
- **Asset redevelopments on track,** with two of four planned redevelopments completed by end-2023, and another expected to be done by early 2025. The bigger redevelopment of 2 Fishery Port Road into an in-demand cold storage facility is currently in planning stages. The estimated yield on cost for redevelopments is 6-7%. EREIT also committed USD70m (c.SGD93m; 8.4% of total) to the ESR Japan Income fund, which is expected to provide a 5% cash-on-cash yield, which is well above the current JPY borrowing of <2%.
- **Healthy 1Q rent reversion of 10.8%,** following on last year's 11%. Positive rental growth continues to be led by the logistics portfolio, while reversions for business parks were flattish. Full-year rent reversions are expected to be in high-single digits. However, portfolio occupancy fell 1.1ppts QoQ to 91.7%, which we believe was mainly driven by lower occupancy in its business parks portfolio.
- **Balance sheet.** About 74% of its debt remains hedged with no refinancing due this year. FY24 financing costs are expected to be at c.4.2%.
- **We lower our FY23-26F DPU by 5-8%,** factoring in divestments and imputing higher financing costs. EREIT's latest sustainability report showed modest progress towards its goals, with room for improvement. Our TP includes a 0% ESG premium/discount.

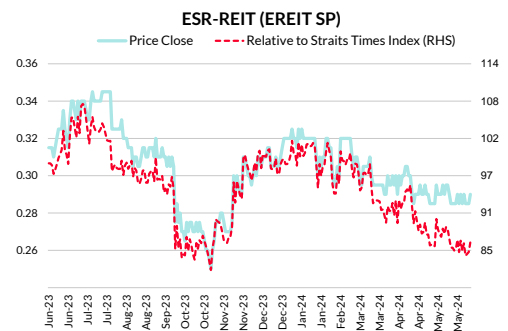
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.4)	1.8	(4.9)	(6.5)	(9.4)
Relative	(12.2)	1.0	(11.1)	(14.4)	(13.8)
52-wk Price low/high (SGD)				0.25	-0.35



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

c.20% of properties have obtained green mark certification as of 2023 (vs.17% as of 2022) and it targets to achieve Green mark certifications for 80% of Singapore buildings by FY30. Solar power generation at its assets stood at 10,979 MWh in 2023, a 264% increase compared to 2019. Energy consumption and intensity though increased significantly in FY23 due to newly acquired assets and increased tenant activities.

S: EXCELLENT

High employee and tenant satisfaction rate of 80.2% and 78% respectively (FY22: 82% and 80%). There were no instance of Workplace Fatal Injury Rate. Achieved 529 hours of employee volunteerism, exceeding its target of 500 hours.

G: GOOD

Regular and timely investor updates and engagements on management strategy and plans. Good and transparent disclosure of financial data. Balanced mix of independent and non-independent directors.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	343	386	353	362	380
Net property income (SGDm)	244	273	244	252	257
Reported net profit (SGDm)	(278)	(67)	62	174	178
Total distributable income (SGDm)	160	176	157	162	175
DPS (SGD)	0.03	0.03	0.02	0.02	0.02
DPS growth (%)	0.7	(14.5)	(4.9)	1.4	0.9
P/B (x)	0.70	0.88	0.90	0.90	0.91
Dividend Yield (%)	10.3	8.8	8.4	8.5	8.6
Return on average equity (%)	(13.8)	(2.7)	2.5	7.0	7.2
Return on average assets (%)	(6.2)	(1.3)	1.2	3.3	3.4

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (SGD)	-	0.04	0.00	0.01	0.02
Property	EPS (SGD)	-	0.05	0.01	0.01	0.02
ESR-LOGOS REIT	DPS (SGD)		0.03	0.03	0.02	0.02
EREIT SP	BVPS (SGD)		0.41	0.33	0.32	0.32
Buy	Return on average equity (%)		(13.8)	(2.7)	2.5	7.0
	Weighted avg adjusted shares (m)		5,903.22	7,515.13	7,701.84	7,744.88
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM Methodology	Recurring P/E (x)	na	629.07	30.29	12.00	11.34
	P/E (x)	na	na	36.19	12.93	12.68
	P/B (x)	0.7	0.9	0.9	0.9	0.9
	FCF Yield (%)	11.3	11.9	10.2	9.5	10.1
	Dividend Yield (%)	10.3	8.8	8.4	8.5	8.6
	EV/EBITDA (x)	-	7.95	5.27	5.76	5.47
	EV/EBIT (x)	-	7.95	5.27	5.76	5.47
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Continued growth in industrial rents and occupancy;	Total turnover	343	386	353	362	380
ii. Portfolio rejuvenation via divestments and asset enhancements;	EBITDA	229	254	224	232	237
iii. Strong and capable sponsor backing with a visible SGD2bn pipeline assets.	Operating profit	229	254	224	232	237
	Net interest	(62)	(76)	(71)	(67)	(63)
	Income from associates & JVs	5	4	13	13	13
	Exceptional income - net	(18)	(73)	(13)	(14)	(22)
	Pre-tax profit	(262)	(66)	69	187	192
	Taxation	(9)	2	(3)	(8)	(9)
	Minority interests	(7)	(4)	(4)	(5)	(5)
	Recurring net profit	(260)	3	74	187	199
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Sharp slowdown in the manufacturing sector from slowing economy;	Change in working capital	(33)	3	6	1	10
ii. Rising pressures from rates and higher supply;	Cash flow from operations	194	260	227	213	229
iii. Lease decay effect on valuation from shorter land leases in Singapore.	Cash flow from investing activities	(267)	362	(70)	(30)	(30)
	Dividends paid	(177)	(193)	(188)	(191)	(194)
	Cash flow from financing activities	93	(626)	(162)	(177)	(201)
	Cash at beginning of period	14	46	42	34	39
	Net change in cash	20	(4)	(5)	6	(2)
	Ending balance cash	34	42	37	39	37
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
ESR-LOGOS REIT is an industrial REIT with a majority portfolio focussed on new economy assets such as logistics, high specification industrial buildings, and business parks in Singapore, Australia and Japan.	Total cash and equivalents	102	42	34	39	37
	Total investments	5,507	5,034	5,133	5,158	5,183
	Total assets	5,654	5,106	5,205	5,237	5,261
	Short-term debt	229	163	50	40	40
	Total long-term debt	1,847	1,393	1,590	1,620	1,625
	Total liabilities	2,805	2,341	2,416	2,452	2,467
	Shareholders' equity	2,445	2,463	2,487	2,483	2,492
	Total equity	2,849	2,765	2,789	2,785	2,794
	Net debt	1,974	1,514	1,606	1,621	1,628
	Total liabilities & equity	5,654	5,106	5,205	5,237	5,261
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	42.3	12.6	(8.6)	2.5	5.0
	Recurrent EPS growth (%)	(266.4)	0.0	1976.5	152.5	5.8
	Operating EBITDA margin (%)	66.7	65.8	63.5	64.1	62.3
	Net profit margin (%)	(81.1)	(17.5)	17.5	48.0	46.9
	Dividend payout ratio (%)	(63.6)	(285.7)	304.2	110.2	109.0
	Interest cover (x)	3.68	3.34	3.18	3.45	3.74

Source: Company data, RHB

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Figure 1: DDM valuation

	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (SGD cents)	2.44	2.47	2.49	2.51	2.55	37.54
Fair value (SGD)	0.35					
ESG premium/(discount) (SGD)	0.00					
TP (SGD)	0.35					
Current price (SGD)	0.29					
Price upside (%)	22.8%					
Distribution yield (%)	8.6%					
Total returns (%)	31.4%					
Assumptions:						
Risk-free rate (%)	2.8					
Beta	1.0					
Cost of equity (%)	8.1					
Terminal growth (%)	1.25					

Source: RHB

Figure 2: Asset divestments since 2021

S.No	Asset name	Asset class	Divestment price (SGDm)	Valuation (SGDm)	Premium/Discount	Announcement date
1	11 Serangoon North Avenue 5	General Industrial		20		Apr-21
2	3C Toh Guan Road East	Logistics	53	30.5	5.0%	Apr-21
3	28 Senoko Drive	General Industrial	12	13.1	-8.4%	Aug-21
4	45 Changi South Avenue 2	General Industrial	11.1	10.3	7.8%	Jan-22
5	3 Sanitarium Drive, Berkeley Vale	Logistics	53.4	45.1	18.4%	May-22
6	49 Pandan Road	Logistics	43.5	37.8	15.1%	Jul-22
7	2 Jalan Kilang Barat	High-Specs	35.3	29	21.7%	Sep-22
8	70 Seletar Aerospace View	General Industrial	7.1	6.8	4.80%	Dec-22
9	3 Pioneer Sector 3	Logistics Warehouse	95	100	-5.0%	Jun-23
10	4&6 Clementi Loop	Logistics Warehouse	37.6	39.56	-5.0%	Jun-23
11	6 Chin Bee Avenue	Logistics Warehouse	93	98.3	-5.4%	Jun-23
12	21 Changi North Way	Logistics Warehouse	30.1	31.7	-5.0%	Jun-23
13	30 Toh Guan Road	Industrial/Warehouse	57.8	60.8	-5.0%	Jun-23
14	22 Chin Bee Drive	General Industrial	13.8	13	6.2%	Jun-23
15	51 Musgrave Road	Logistics	9.7	9.5	2.4%	Jun-23
16	2 Tuas South Avenue 2	General Industrial	53	39.2	35.2%	Oct-23
17	182-198 Maidstone Street	Logistics	58	54	7.4%	Apr-24
	Total		663	639	4%	

Source: Company Data, RHB

Emissions And ESG

Trend analysis

Scope 2 Carbon Emission and Intensity saw a significant increase in FY23 due to newly acquired cold storage properties as well as increased tenant activities and footfall across its assets. The company started to report Scope 1 emission for its Singapore portfolio for the first time in FY23 which accounted for <3% of total emissions and aims to work towards improving Scope 1 disclosures for Japan and Australia portfolios.

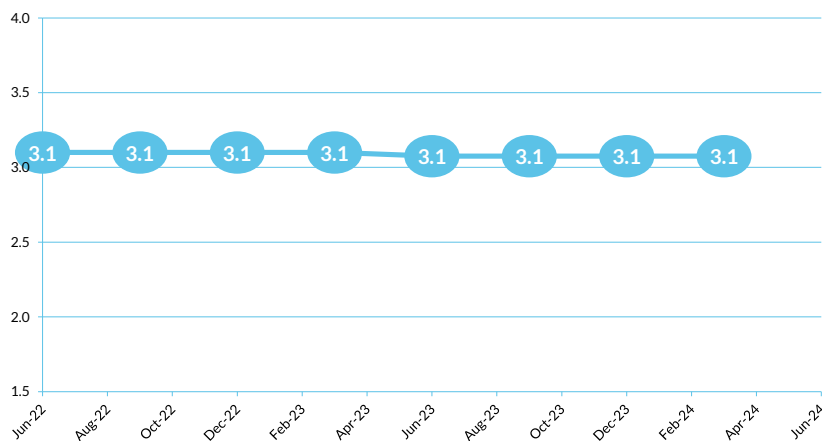
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	456
Scope 2	15,257	12,777	16,874
Scope 3	na	na	na
Total emissions	15,257	12,777	17,330

Source: Company data, RHB

Latest ESG-Related Developments

- 1/5th of assets had green building certification in FY23.
- 27 of 28 Singapore multi-tenancy buildings have Water Efficiency Building Certification.
- High employee satisfaction rate of 80.2%.
- 100% of its new suppliers meet requirements of the green procurement policy.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-04	Buy	0.38	0.32
2023-10-10	Buy	0.38	0.28
2023-06-13	Buy	0.40	0.31
2023-01-31	Buy	0.45	0.38
2022-11-20	Buy	0.46	0.35
2022-08-31	Buy	0.53	0.41
2022-03-08	Buy	0.53	0.42
2021-12-28	Buy	0.54	0.48
2021-09-09	Buy	0.54	0.48
2021-01-21	Buy	0.48	0.42
2020-03-18	Buy	0.50	0.31
2020-01-24	Buy	0.60	0.56
2020-01-07	Buy	0.60	0.55
2019-10-29	Buy	0.60	0.54
2019-02-12	Buy	0.61	0.51

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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