

1 August 2024

Property | REITS

## ESR-LOGOS REIT (EREIT SP)

**Buy** (Maintained)

### Making a Giant Leap; BUY

Target Price (Return): SGD0.34 (+24%)  
 Price (Market Cap): SGD0.28 (USD1,571m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (SGD/USD) 2.40m/1.78m

- **BUY, new TP of SGD0.34 from SGD0.35, 24% upside with c.9% yield.** ESR-LOGOS REIT's proposal to acquire two sponsor assets checks all the right boxes in its stated long-term portfolio rebalancing strategy. In addition, the sponsor's underwriting preferential offering – at a 11% premium to current share price – is a positive signal. Gearing, however, will move back to c.41% levels, which we believe is likely to be an investor concern, at this juncture. 1H results missed expectations, on lower-than-expected income top-ups.
- **Proposed acquisition of two modern warehouse and high-specification assets in Japan and Singapore from sponsor.** ESR Yatomi Kisosaki Distribution Centre, Nagoya is a freehold warehouse asset completed in Apr 2022 and will be acquired for JPY38bn (SGD322m, 2.3% discount to valuation). It has a committed occupancy rate of 89.4% with advanced negotiations for another 4%, and will be acquired at initial NPI yield of 4% (including rent guarantee for vacant spaces). While its WALE is relatively short at 2.7 years from five tenants, management attributed this to the first cycle of lease signings and expects the majority of tenants to stay. Average passing rent of the property is slightly below current market rates. EREIT will also acquire a 51% stake in 20 Tuas South Avenue 14, a high-specification manufacturing facility (60%) and ramped-up warehouse (40%) for an agreed-upon value of SGD840m, based on a 100% stake, at 2.3% discount to valuation. The asset is 99.7%-occupied, with a blended long WALE of 11.2 years, and comes with lease extension options and built-in rent step-up of c.1%. As both assets are acquired from its sponsor, the transaction will be subject to EGM approvals, with a likely completion by end-November.
- **DPU accretion of 1.8%** (pro-forma FY23) with c.73% of the acquisitions expected to be funded by debt and the remaining SGD194m via a preferential equity offering at a premium of SGD0.305/unit. This will be fully underwritten by its sponsor ESR for up to SGD140m and Ivanhoe Cambridge for the remaining SGD54m. Post-acquisition gearing, though, is expected to climb to 41% (from 35.7%), but EREIT guided that it is still working on SGD200-300m of potential divestments that should lower gearing further.
- **1H DPU down 19% YoY** due to divestments, decommissioning of assets for redevelopment, and pending contributions from redevelopments along with lower income top-ups. NPI on a same store basis (1H) rose marginally by 0.5%. EREIT has also raised utility charges across the majority of Singapore assets, which will add SGD250k per month to income.
- **We trim FY24-26F DPU by 2-3%** by lowering capital top-up assumptions. We have yet to factor in acquisitions, pending shareholder approvals. EREIT's ESG is on par with the country median, so a 0% ESG premium/discount has been applied to its intrinsic value to derive our TP.

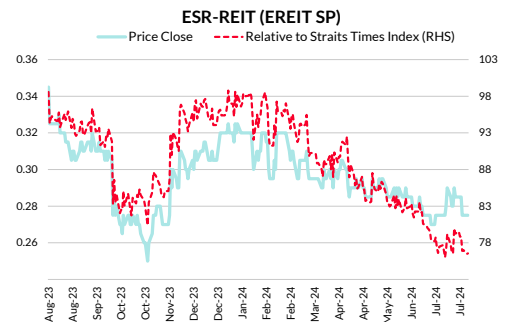
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.1)	1.9	(5.2)	(9.8)	(20.3)
Relative	(20.3)	(1.4)	(9.7)	(19.1)	(22.4)
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 (2022: 17%). EREIT targets to achieve Green Mark certification for 80% of its Singapore buildings by FY30. Solar power generation at its assets amounted to 10,979 MWh in 2023, a 264% increase compared to 2019 levels. Energy consumption and intensity though increased significantly in FY23 due to newly acquired assets and increased tenant activities.

##### S: EXCELLENT

EREIT has a high employee and tenant satisfaction rate of 80.2% and 78% (FY22: 82% and 80%). There was no instance of workplace fatalities. It also clocked 529 hours of employee volunteerism, exceeding its own target of 500 hours.

##### G: GOOD

There are regular and timely investor updates and engagement on management strategy and plans, as well as good and transparent disclosure of financial data. EREIT's Board has a 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)	(9.0)	2.6	2.6
P/B (x)	0.66	0.84	0.85	0.85	0.85
Dividend Yield (%)	10.9	9.3	8.5	8.7	8.9
Return on average equity (%)	(13.8)	(2.7)	2.5	7.0	7.1
Return on average assets (%)	(6.2)	(1.3)	1.2	3.3	3.4

Source: Company data, RHB

## 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	0.03
Property	EPS (SGD)	(0.05)	(0.01)	0.01	0.02	0.02
<b>ESR-LOGOS REIT</b>	DPS (SGD)	0.03	0.03	0.02	0.02	0.02
EREIT SP	BVPS (SGD)	0.41	0.33	0.32	0.32	0.32
Buy	Return on average equity (%)	(13.8)	(2.7)	2.5	7.0	7.1
	Weighted avg adjusted shares (m)	5,903.22	7,515.13	7,701.84	7,744.88	7,788.48
<b>Valuation basis</b>						
DDM	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	na	596.53	28.73	11.38	10.75
	P/E (x)	na	na	34.32	12.26	12.02
	P/B (x)	0.7	0.8	0.8	0.9	0.9
	FCF Yield (%)	11.9	12.6	10.7	10.0	10.7
	Dividend Yield (%)	10.9	9.3	8.5	8.7	8.9
	EV/EBITDA (x)	(8.34)	(5.72)	(6.31)	(6.12)	(6.04)
	EV/EBIT (x)	(8.34)	(5.72)	(6.31)	(6.12)	(6.04)
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	343	386	353	362	380
	EBITDA	229	254	224	232	237
	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
	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(33)	3	6	1	10
	Cash flow from operations	194	260	227	213	229
	Cash flow from investing activities	(267)	362	(70)	(30)	(30)
	Dividends paid	(177)	(193)	(180)	(185)	(191)
	Cash flow from financing activities	93	(626)	(154)	(171)	(198)
	Cash at beginning of period	14	46	42	42	53
	Net change in cash	20	(4)	3	12	1
	Ending balance cash	34	42	45	53	54
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	102	42	42	53	54
	Total investments	5,507	5,034	5,133	5,158	5,183
	Total assets	5,654	5,106	5,213	5,251	5,278
	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	2,495	2,497	2,509
	Total equity	2,849	2,765	2,797	2,799	2,811
	Net debt	1,974	1,514	1,598	1,607	1,611
	Total liabilities & equity	5,654	5,106	5,213	5,251	5,278
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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)	291.3	106.7	107.3
	Interest cover (x)	3.68	3.34	3.18	3.45	3.74

Source: Company data, RHB

Figure 1: DDM valuation

	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
DPU (SG cents)	2.33	2.39	2.46	2.47	2.54	36.8
Fair value (SGD)	0.34					
ESG Prem./(disc.) (SGD)	0.00					
<b>Target Price (SGD)</b>	<b>0.34</b>					
Current price (SGD)	0.275					
Price upside (%)	23.6%					
Distribution yield (%)	8.5%					
Total Returns (%)	32.1%					
<b>Assumptions:</b>						
Risk-free rate (%)	2.8					
Beta	1.0					
Cost of equity (%)	8.1					
Terminal growth (%)	1.25					

Source: RHB

Figure 2: ESR Yatomi Kisosaki Distribution Centre



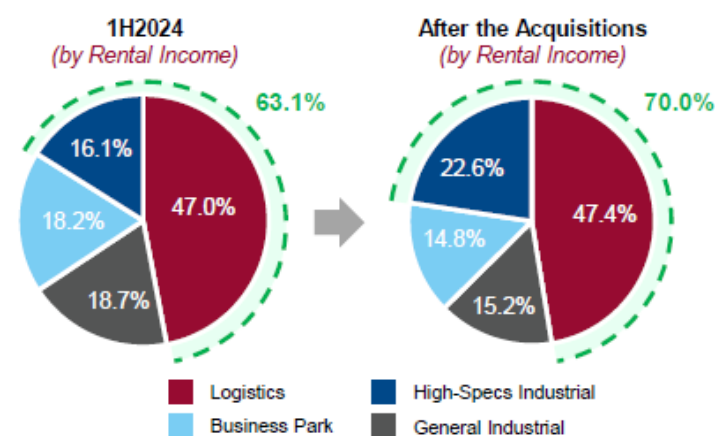
Source: Company data

Figure 3: 20 Tuas South Avenue 14



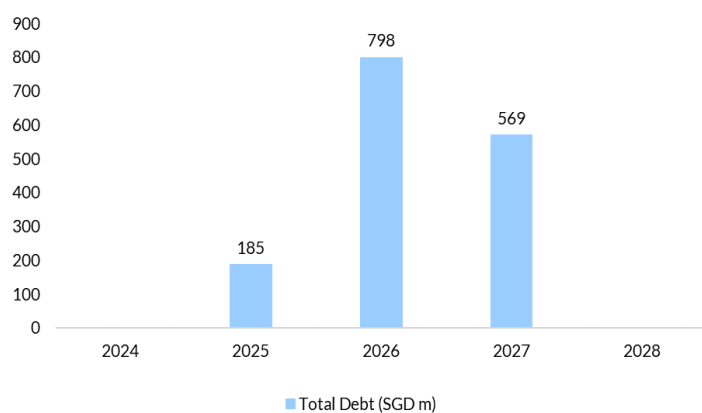
Source: Company data

Figure 4: Asset mix post proposed acquisition



Source: Company data

Figure 5: Debt maturity profile



Source: Company data

## Emissions And ESG

### Trend analysis

EREIT's Scope 2 carbon emission and intensity rose significantly in FY23, due to newly acquired cold storage properties as well as increased tenant activities and footfall across its assets. It began to report Scope 1 emissions for its Singapore portfolio for the first time in FY23 - this accounted for <3% of total emissions. Management aims to work towards improving Scope 1 disclosures for the Japan and Australia assets.

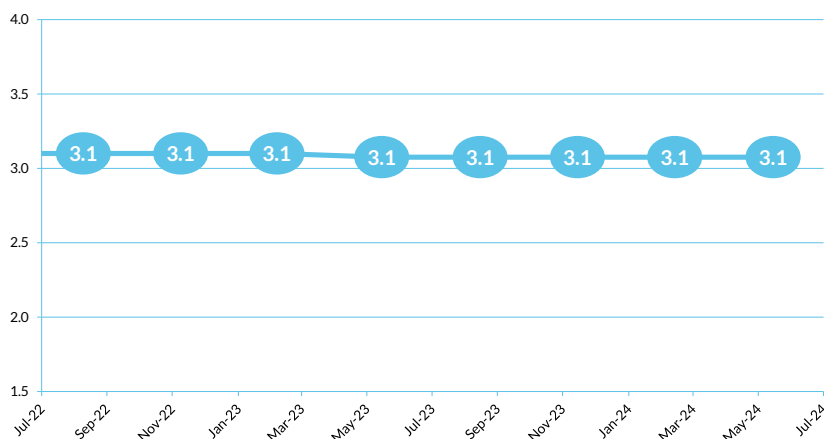
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	456
Scope 2	15,257	12,777	16,874
Scope 3	na	na	na
Total emissions	15,257	12,777	17,330

Source: Company data, RHB

## Latest ESG-Related Developments

- One-fifth of the REIT's assets have green building certification, as of 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 met the requirements stated in the green procurement policy.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-07	Buy	0.35	0.29
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

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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