

1 February 2023

Property | REITS

ESR-LOGOS REIT (EREIT SP)

Buy (Maintained)

Portfolio Transformation On Track; BUY

- **BUY, new TP of SGD0.45 from SGD 0.46, 18% upside with c.7% FY23F yield.** ESR-LOGOS REIT's 2H22 and FY22 results were broadly in line. Its operational performance should continue improving in FY23, on resilient industrial demand, but offset by interest cost and inflation pressures. Key catalyst: The successful execution of its ongoing portfolio rejuvenation, with the likely divestment of assets and capital recycled into asset enhancements and selective acquisitions. The strong sponsor backing and visible growth pipeline presents strong medium-term growth.
- **2H22 DPU grew 7.5%YoY**, aided by merger contributions and past gains distribution top-ups of SGD14.5m – to offset divestment losses, as well as interest and inflation cost pressures. With the ongoing portfolio revamp and rising cost pressures, management plans to continue leaning on capital top-ups, for up to c.10% of DPU. Overall portfolio value declined marginally as gains from Singapore assets (+1.2%) were offset by a decline in Australia (-5.7%), which in turn was due to a c.50bps cap rate expansion. c.72% of its debt is on fixed interest rates as of 4Q22 (3Q22: 67%), with every 50bps increase expected to impact DPU by about 3%. The REIT also indicated that it will likely redeem its SGD100m perpetual securities, which is due for a rate reset in Feb 2023.
- **Divestment of SGD450m in non-core assets on the cards.** EREIT is currently marketing a SGD450m portfolio of non-core Singapore assets. The move comes closely on the heels of its SGD150m worth of divestments announced last year, at a c.15% blended premium to valuations. We are positive on management's strategy of rebalancing its portfolio towards modern and longer lease assets and divesting shorter-lease assets. While there is a visible pipeline of SGD2bn worth of sponsor assets, it remains cautious on acquisitions ahead amid the rising cost of capital. Management is also currently evaluating the potential redevelopment of an existing logistics asset into a cold storage ramp-up logistic facility, for which there is high demand. Asset enhancement exercises are also ongoing at three of its assets, at an estimated yield-on-cost of 6-7%.
- **Positive mid-single digit reversions for FY23F** following a strong 2022, in which its portfolio saw a healthy c.12% rental reversion –driven mainly by logistics and high-specification buildings. Passing rental rates for its overseas assets are also 20-40% below spot rental rates, indicating good room for rental growth. Overall portfolio occupancy improved 0.3ppt QoQ to 92.7%, and should stay around these levels for FY23.
- **We trim FY23-24F DPU by 1% and 2%,** factoring in higher operating and interest costs. EREIT has an ESG score of 3.1 out of 4.0. As this is one notch above the country median, we applied a 2% ESG premium to its intrinsic value to derive our TP.

Target Price (Return):	SGD0.45 (+18%)
Price (Market Cap):	SGD0.38 (USD1,946m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (SGD/USD)	3.21m/2.36m

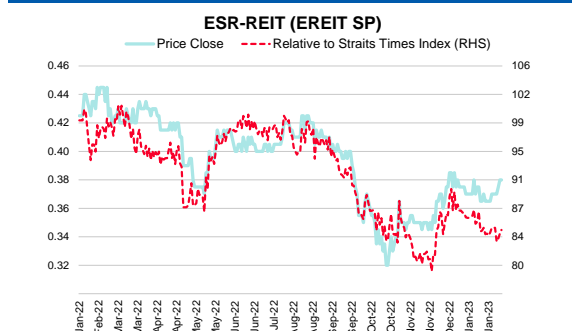
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	2.7	13.4	(9.5)	(11.6)
Relative	(1.2)	(1.2)	3.0	(14.7)	(15.7)
52-wk Price low/high (SGD)	0.32 – 0.45				



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

The REIT targets to achieve 5% reduction in total energy consumption for multi-tenancy buildings from 2019 to 2023. It also aims to achieve Green Mark Certification for all Buildings that undergo an AEI, and a 50% increase in solar power generation by 2025 (from the base year of 2019).

S: GOOD

It has a high employee satisfaction rate of 81%, with a 94% response rate. The tenant satisfaction rate improved from 69% in 2018 to 78% in 2021. It also implemented the regular disinfection of lifts and common areas to ensure employee safety. The REIT clocked an average of 36.5 hours of training per employee compared to its baseline of 16 hours.

G: GOOD

It holds regular investor updates to keep the latter informed on the impact of COVID-19, and has ramped up levels of disclosure and transparency of data. There is also a balanced mix of independent and non-independent directors. It has also reviewed and updated internal governance policies.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	241	343	412	420	430
Net property income (SGDm)	173	244	281	287	295
Reported net profit (SGDm)	102	(278)	200	227	208
Total distributable income (SGDm)	120	160	203	205	212
DPS (SGD)	0.03	0.03	0.03	0.03	0.03
DPS growth (%)	7.4	0.7	(8.7)	0.5	3.0
P/B (x)	0.91	0.91	1.05	1.05	1.06
Dividend Yield (%)	7.8	7.9	7.2	7.2	7.5
Return on average equity (%)	6.7	(13.7)	8.2	9.3	8.4
Return on average assets (%)	3.1	(6.2)	3.5	4.0	3.6

Source: Company data, RHB

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Financial Exhibits

Asia

Singapore

Property

ESR-LOGOS REIT

EREIT SP

Buy

Valuation basis

DDM Methodology

Key drivers

i. Continued growth in industrial rental and occupancy rates;

ii. Portfolio rejuvenation via asset divestments and enhancements;

iii. Strong and capable sponsor backing, with a visible pipeline of assets worth SGD1-2bn.

Key risks

i. Sharp slowdown in the manufacturing sector from rising trade tensions;

ii. Rising industrial pressures from higher supply;

iii. Lease decay from shorter land leases in Singapore.

Company Profile

ESR-LOGOS REIT is an industrial REIT. The majority of its portfolio is focussed on new economy assets such as logistics and business parks in Singapore and Australia. As at 31 Dec 2022, the REIT holds interests in a diversified portfolio of logistics properties, high-specifications industrial properties, business parks and general industrial properties with total assets of approximately SGD5.7bn. Its portfolio comprises 82 properties (excluding 48 Pandan Road, which is held through a joint venture) located across the developed markets of Singapore (61 assets) and Australia (20 assets) and Japan (1 asset) with a total GFA of approximately 2.3m sqm, as well as investments in three property funds in Australia.

Financial summary

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Recurring EPS (SGD)

0.03

-

0.04

0.03

0.03

0.03

EPS (SGD)

0.03

-

0.05

0.03

0.03

0.03

DPS (SGD)

0.03

0.03

0.03

0.03

0.03

BVPS (SGD)

0.42

0.42

0.36

0.36

0.36

Return on average equity (%)

6.7

(13.7)

8.2

9.3

8.4

Weighted avg adjusted shares (m)

3,813.33

5,903.22

6,739.71

6,790.82

6,842.28

Valuation metrics

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Recurring P/E (x)

14.36

na

13.43

11.88

13.13

P/E (x)

14.27

na

12.79

11.38

12.53

P/B (x)

0.9

0.9

1.1

1.0

1.1

FCF Yield (%)

10.5

14.3

11.9

10.7

11.0

Dividend Yield (%)

7.8

7.9

7.2

7.2

7.5

EV/EBITDA (x)

-

3.99

-

5.23

-

3.12

-

3.14

-

3.04

EV/EBIT (x)

-

3.99

-

5.23

-

3.12

-

3.14

-

3.04

Income statement (SGDm)

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Total turnover

241

343

412

420

430

EBITDA

157

229

253

259

267

Operating profit

157

229

253

259

267

Net interest

(44)

(62)

(82)

(86)

(88)

Income from associates & JVs

8

5

12

13

13

Exceptional income - net

1

(18)

10

10

10

Pre-tax profit

108

(262)

218

247

228

Taxation

(2)

(9)

(10)

(11)

(10)

Minority interests

(4)

(7)

(8)

(9)

(10)

Recurring net profit

101

(260)

191

217

198

Cash flow (SGDm)

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Change in working capital

(11)

95

36

3

2

Cash flow from operations

153

322

305

277

286

Cash flow from investing activities

(149)

(267)

(10)

(10)

(10)

Dividends paid

(114)

(177)

(185)

(187)

(194)

Cash flow from financing activities

3

(35)

(295)

(271)

(280)

Cash at beginning of period

18

14

10

43

40

Net change in cash

6

20

(1)

(4)

(5)

Ending balance cash

24

34

9

40

35

Balance sheet (SGDm)

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Total cash and equivalents

14

10

43

40

35

Total investments

3,253

5,507

5,546

5,599

5,627

Total assets

3,330

5,662

5,643

5,693

5,717

Short-term debt

209

229

50

50

50

Total long-term debt

981

1,847

2,190

2,195

2,200

Total liabilities

1,581

2,805

2,808

2,827

2,864

Shareholders' equity

1,598

2,457

2,435

2,466

2,453

Total equity

1,749

2,857

2,835

2,866

2,853

Net debt

1,177

2,067

2,197

2,205

2,215

Total liabilities & equity

3,330

5,662

5,643

5,693

5,717

Key metrics

Dec-21

Dec-22

Dec-23F

Dec-24F

Dec-25F

Revenue growth (%)

4.9

42.3

20.0

2.1

2.2

Recurrent EPS growth (%)

338.6

(266.4)

0.0

13.1

(9.6)

Operating EBITDA margin (%)

65.1

66.7

61.4

61.5

62.1

Net profit margin (%)

42.1

(81.1)

48.6

54.0

48.3

Dividend payout ratio (%)

111.9

(63.6)

92.2

82.4

93.4

Interest cover (x)

3.58

3.68

3.08

3.02

3.03

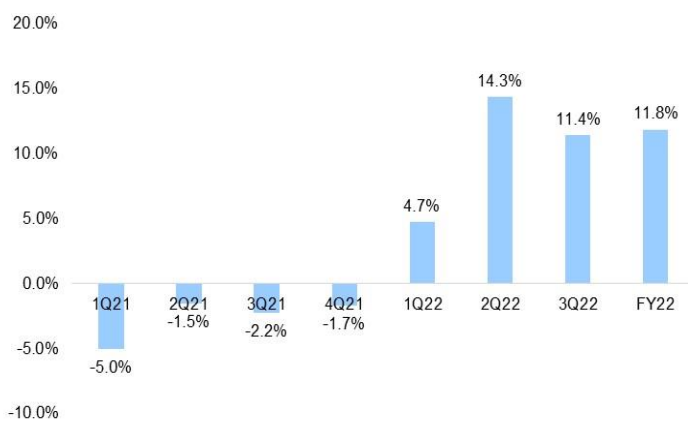
Source: Company data, RHB

Figure 1: DDM valuation

	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal Value
DPU (SG cents)	2.74	2.75	2.83	2.90	2.96	47.5
Fair value (SGD)	0.44					
ESG premium/discount (SGD)	0.01					
Target Price (SGD)	0.45					
Current price (SGD)	0.38					
Price upside (%)	18.1%					
Distribution yield (%)	7.2%					
Total Returns (%)	25.3%					
Assumptions:						
Risk-free rate (%)	2.8					
Beta	0.9					
Cost of equity (%)	7.6					
Terminal growth (%)	1.25					

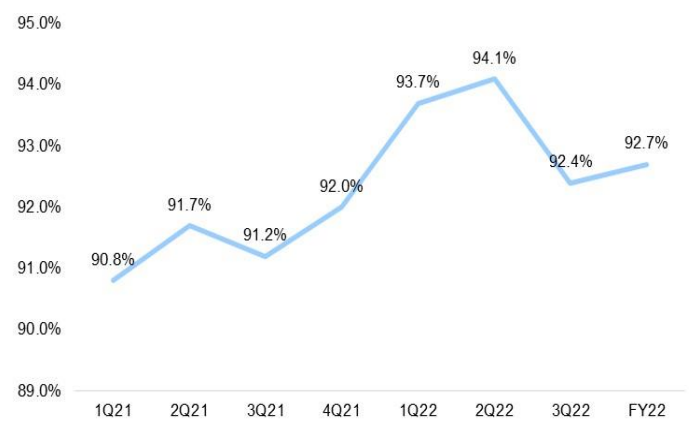
Source: RHB

Figure 2: Positive rental reversion momentum since FY22*



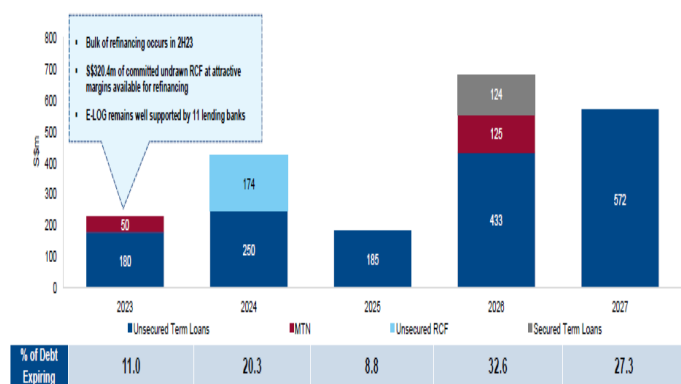
Note: *Includes enlarged portfolio post-merger, May 2022
Source: Company data

Figure 3: High occupancy levels to be maintained



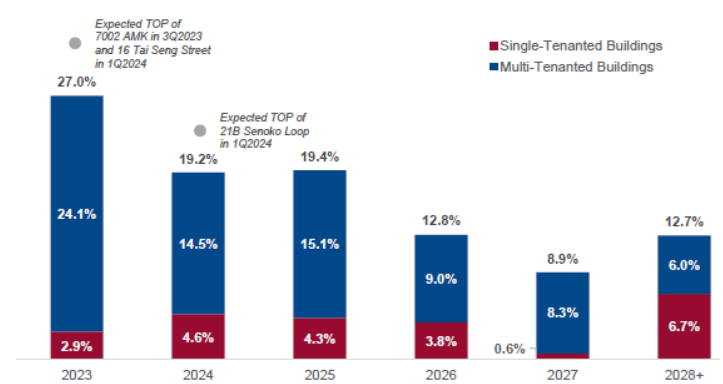
Note: *Includes enlarged portfolio post-merger, May 2022
Source: Company data

Figure 4: Debt expiry profile



Source: Company data

Figure 5: Well-spread lease expiry profile



Source: Company data

Recommendation Chart

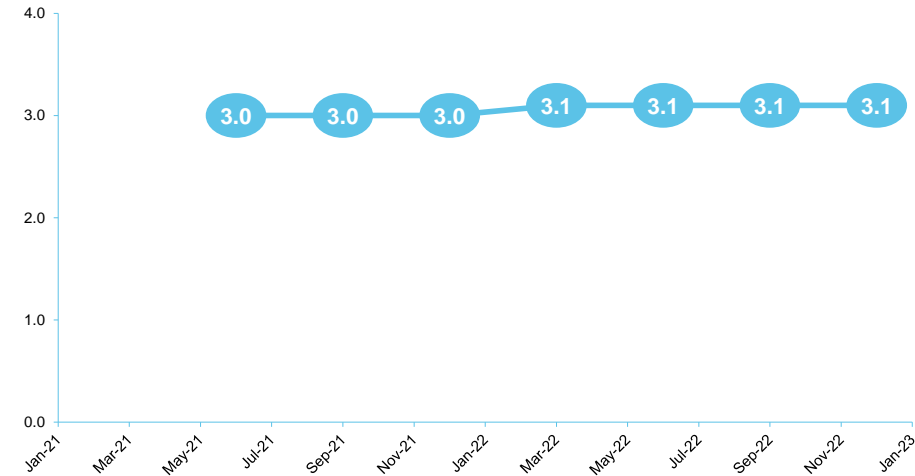


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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

ESG Rating History



Source: RHB

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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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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