27 October 2020

Property | REITS

ARA Logos Logistics Trust (ALLT SP)

Buy (Maintained)

Growing Its Australian Presence; Keep BUY

Target Price (Return):	SGD0.72 (18.0%)
Price:	SGD0.61
Market Cap:	USD490m
Avg Daily Turnover (SGD/USD)	1.42m/1.01m

- **Maintain BUY and SGD0.72 TP, 18% upside with c.8% yield.** ARA Logos Logistics Trust's sizeable acquisition of ten Australian assets demonstrates sponsor LOGOS' ability to grow the REITs portfolio with quality assets. Despite a mildly dilutive transaction, we like the deal for its long WALE (11.3 years) with built-in rent escalations and tenant quality. ALOG also has a rights of first refusal to acquire the remaining fund stake, providing room for growth. The valuation is reasonably attractive with stock trading at 1x P/BV.
- **A transformational deal.** ALOG announced its proposed acquisition of five properties in Brisbane, Australia (including a development asset which is expected to be completed in Nov 2021) for SGD225.9m. In addition it has also made a fund investment of 49.5% and 40% in New LAIVS Trust (LT) and Oxford Property Fund (OP) which combined own five logistic properties for SGD178.5m (Figure 2). Five of the assets are freehold with remaining five under leasehold tenures but management is confident that leases can be extended. The assets blended NPI yield of 5% is comparable to that of recent acquisitions of Australian logistic assets by other S-REITs in. Post-acquisition, 48% of total assets will be Australian-based, up from 33% currently, in line with ALOG's stated objective of diversifying out of Singapore. The transaction needs an EGM approval and is expected to be completed by the end of the year.
- **A long WALE of 11.3 years** with no lease break clauses is one of the key highlights of the deal in our view, which offers a good income visibility under the current volatile market conditions. In addition, all the leases have inbuilt rent escalations of 2.5% to 4% pa, providing organic growth. ALOG also has rights of first refusal to acquire the remaining stake in the fund. Overall occupancy stands at 97% with management noting that rents currently in place are in line with market. Post-acquisition, ACFS (Australia's largest privately owned container logistics operator) and IPS logistics will become part of the top 10 tenants, accounting for 12% of total rental income.
- **Deal is mildly dilutive to pro-forma DPU and NAV.** ALOG plans to fund the deal via a combination of private placement and preferential offering of 322m units, raising gross proceeds of SGD188.6m and remaining via debt. LOGOS will show commitment by subscribing for SGD18.7 worth of units and vendor Ivanhoe has committed to subscribe for SGD 70m worth of units thereby becoming a major shareholder. LOGOS will also provide undertaking to back-stop the entire preferential offering. Based on the proposed fund raising, the deal is mildly dilutive (-1.9% to 1H20 pro-forma DPU and -2.2% to NAV). Post transaction, gearing stands at 42.9% from 40.4% currently. We revised our FY21-22F DPU by -2%, factoring in the equity fund raising. We also have lowered by 50bps our assumptions, resulting in a the cost of equity of 8.1%.

Analyst

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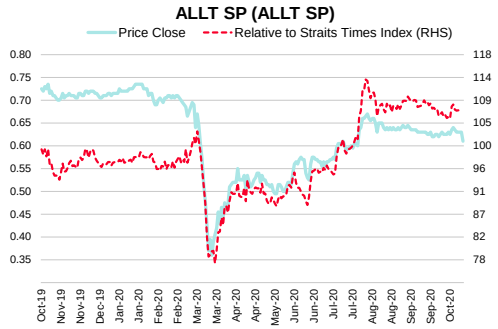
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.7)	(2.4)	0.8	19.6	(15.9)
Relative	6.6	(5.0)	2.4	18.8	4.5
52-wk Price low/high (SGD)					0.36 – 0.74



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	122	114	116	134	138
Net property income (SGDm)	91	86	87	100	103
Reported net profit (SGDm)	25.9	(8.0)	45.3	62.7	65.8
Total distributable income (SGDm)	58.4	57.7	56.1	66.0	66.2
DPS (SGD)	0.06	0.06	0.05	0.05	0.05
DPS growth (%)	(9.7)	(6.7)	(12.6)	2.4	2.5
P/B (x)	0.92	1.03	1.06	1.06	1.07
Dividend Yield (%)	9.7	9.0	7.9	8.1	8.3
Return on average equity (%)	3.5	(1.2)	7.2	8.6	8.0
Return on average assets (%)	2.0	(0.6)	3.3	4.0	3.7

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia
Singapore
Property
ARA Logos Logistics Trust
ALLT SP
Buy

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;
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.

Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS (SGD)	0.02	- 0.01	0.04	0.04	0.05
EPS (SGD)	0.02	- 0.01	0.04	0.04	0.05
DPS (SGD)	0.06	0.06	0.05	0.05	0.05
BVPS (SGD)	0.66	0.59	0.57	0.57	0.57
Return on average equity (%)	3.5	(1.2)	7.2	8.6	8.0
Weighted avg adjusted shares (m)	1,072.18	1,082.85	1,092.50	1,433.55	1,444.28

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	25.26	na	14.70	13.95	13.38
P/E (x)	25.26	na	14.70	13.95	13.38
P/B (x)	0.9	1.0	1.1	1.1	1.1
FCF Yield (%)	11.9	11.2	10.8	10.6	11.1
Dividend Yield (%)	9.7	9.0	7.9	8.1	8.3
EV/EBITDA (x)	- 2.19	- 2.36	- 2.13	0.31	0.35
EV/EBIT (x)	- 2.21	- 2.37	- 2.13	0.31	0.35

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	122	114	116	134	138
EBITDA	81	76	76	88	91
Depreciation and amortisation	(1)	(0)	0	0	0
Operating profit	80	75	76	88	91
Net interest	(18)	(21)	(22)	(30)	(31)
Pre-tax profit	28	(6)	47	65	68
Taxation	(3)	(2)	(2)	(2)	(3)
Recurring net profit	26	(8)	45	63	66

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Cash flow from operations	83	77	75	96	101
Capex	(5)	(3)	(3)	(3)	(3)
Cash flow from investing activities	(110)	(42)	(3)	(407)	(3)
Dividends paid	(64)	(59)	(53)	(65)	(71)
Cash flow from financing activities	49	(56)	(76)	310	(100)
Cash at beginning of period	15	33	15	13	16
Net change in cash	22	(21)	(4)	(1)	(2)
Ending balance cash	36	12	11	12	14

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	33	15	13	16	17
Total investments	1,269	1,334	1,342	1,577	1,588
Total other assets	1	1	1	179	179
Total assets	1,310	1,359	1,363	1,780	1,792
Short-term debt	28	113	0	0	0
Total long-term debt	442	397	528	746	756
Total liabilities	495	618	634	855	865
Shareholders' equity	713	639	627	823	825
Total equity	815	741	729	925	926
Net debt	437	495	514	730	739
Total liabilities & equity	1,310	1,359	1,363	1,780	1,792

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	8.6	(6.6)	1.8	15.7	3.1
Recurrent EPS growth (%)	(2.0)	(130.4)	0.0	5.4	4.3
Operating EBITDA margin (%)	66.3	66.8	65.7	66.0	66.1
Net profit margin (%)	21.3	(7.0)	39.2	46.9	47.8
Dividend payout ratio (%)	244.9	(750.7)	116.3	113.0	111.1
Capex/sales (%)	4.2	2.3	2.3	2.0	1.9
Interest cover (x)	4.33	3.51	3.47	2.96	2.98

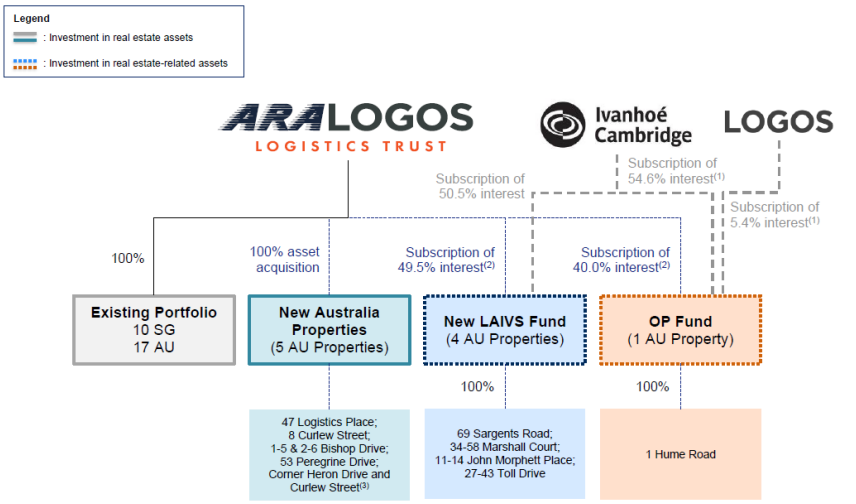
Source: Company data, RHB

Figure 1: Fair value based on the Dividend Discount Model

	FY20F	FY21F	FY22F	FY23F	Terminal value
DPU (SGD cents)	4.83	4.94	5.07	5.27	75.3
Fair value (SGD)	**0.72**				
Current price (SGD)	0.61				
Price upside (%)	18.0				
Distribution yield (%)	7.9				
Total Returns (%)	25.9				
Assumptions					
Risk-free rate: (%)	2.8				
Beta	1.0				
Cost of equity (%)	8.1				
Terminal growth: (%)	1.0				

Source: RHB

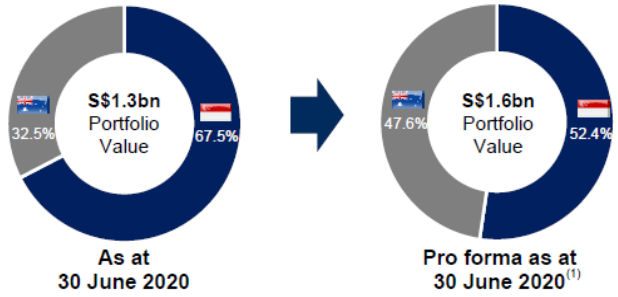
Figure 2: Transaction structure



Note: Simplified organization chart showing key entities only.
(1) Based on their respective effective interest in the OP Fund.
(2) The investments in the New LAIVS Fund and the OP Fund would be classified as an investment in real estate-related assets under the Property Funds Appendix. For avoidance of doubt, the Australia Fund Properties are not held by ALOG.
(3) ALOG has made 5% down payment in respect of Heron, and will complete the acquisition of the Heron Property within three months after initial practical completion, which is currently expected to be in November 2021.

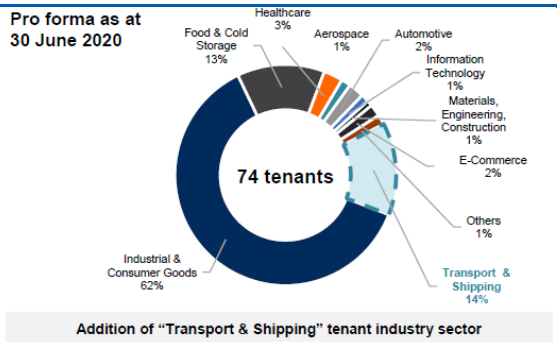
Source: Company Data

Figure 3: Geographical exposure post acquisition



Source: Company data

Figure 4: Diversification into new trade sectors



Source: Company data

Figure 5: Assets details

	8 Curlew Street, Port of Brisbane	Corner Heron Drive and Curlew Street, Port of Brisbane	1-5 & 2-6 Bishop Drive, Port of Brisbane	53 Peregrine Drive, Port of Brisbane	47 Logistics Place, Larapinta
Location	Brisbane, Queensland	Brisbane, Queensland	Brisbane, Queensland	Brisbane, Queensland	Brisbane, Queensland
Land tenure	Leasehold	Leasehold	Leasehold	Leasehold	Freehold
Appraised value	A$51.5m	A$63.0m	A$101.0m	A$17.6m	A$13.5m
Committed occupancy	100.0%	100.0% (Pre-committed)	97.3%	100.0%	Vacant
WALE by NLA (years) as at 30 June 2020	15.2	20.0 (Pre-committed) starting from November 2021	7.2	16.0	-
Asset type	Warehouse	Cold storage	Warehouse	Hardstand	Distribution center
Tenant(s)	ACFS Port Logistics	Teys Australia (Pre-committed)	Agility Logistics, Castrol, ACFS, IPS, PortGate Logistics(1)	ACFS Port Logistics	-
Tenant trade sector(s)	Transport & Shipping	Food & Cold Storage	Transport & Shipping / Materials, Engineering, Construction	Transport & Shipping	-

Source: Company Data

Figure 6: Assets details – cont.

	69 Sargents Road, Minchinbury *(Held by New LAIVS Fund)*	11-14 John Morphett Place, Erskine Park *(Held by New LAIVS Fund)*	34-58 Marshall Court, Altona *(Held by New LAIVS Fund)*	27-43 Toll Drive, Altona North *(Held by New LAIVS Fund)*	1 Hume Road, Laverton North *(Held by OP Fund)*
Location	Sydney, New South Wales	Sydney, New South Wales	Melbourne, Victoria	Melbourne, Victoria	Melbourne, Victoria
Land tenure	Leasehold	Freehold	Freehold	Freehold	Freehold
Appraised value	A$290.0m	A$52.5m	A$70.6m	A$50.2m	A$332.0m
Committed occupancy	100.0%	100.0%	100.0%	100.0%(1)	100.0%
WALE by NLA (years) as at 30 June 2020	6.1	10.2	4.2	10.4	20.6
Asset type	Distribution center	Distribution center	Distribution center	Distribution center	Cold storage
Tenant(s)	Woolworths	Visa Global	Scalzo Trading, EFM, Tony Innaimo Transport	Visa Global, Allied Seafreight	Lineage Logistics
Tenant trade sector(s)	Food & Cold Storage	Industrial & Consumer Goods	Food & Cold Storage / Industrial & Consumer Goods	Industrial & Consumer Goods	Food & Cold Storage

Source: Company Data

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-29	Buy	0.72	0.64
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
2018-10-16	Buy	0.84	0.72
2018-02-02	Buy	na	0.87
2018-02-01	Buy	0.98	0.88

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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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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