

COMPANY UPDATE

Frasers Logistics & Commercial Trust (FLT SP)

Strength Of Logistics Portfolio And Balance Sheet Unshaken By Controversies

The selling of new units issued in lieu of management fees could be comfortably absorbed and is estimated to account for 9% of daily turnover if disposed over 10 days. Higher AOS for the state of Victoria is already largely reflected in FLT's financial performance for FY24. FLT's ability to grow via acquisition is supported by a low aggregate leverage of 33.0% and large debt headroom of S\$801m. FLT provides FY25 yield of 7.3% for (MLT: 6.6%). Re-iterate BUY. Target price: S\$1.33.

WHAT'S NEW

- A recent report on Frasers Logistics & Commercial Trust (FLT) circulating in the financial community has created some controversies.
- Selling of units issued in lieu of management fees should not affect unit price.** FLT must ensure that no foreign resident individual owns 10% or more of its units outstanding for its Australia subsidiary to qualify as a Managed Investment Trust (MIT) under the Australian Taxation Administration Act. The share swap between ThaiBev and TCC Assets completed in Sep 24 has led to ThaiBev exiting the property business and the entire 86.9% stake in Frasers Property Limited (FPL) being consolidated under TCC Assets. As a result of the restructuring, patriarch Charoen Sirivadhanabhakdi's effective stake in FLT has risen and currently sits slightly below the threshold of 10%. Thus, sponsor FPL must dispose new units that it received for payment of management fees to ensure that FLT's Australia subsidiary maintains its MIT status. Assuming 50% of management fees is paid through issue of new units and the new units are sold in the market over 10 days, we estimate that the selling pressure would amount to only 9% of the average daily turnover, which could be comfortably absorbed.
- Negative impact of higher land & property tax in Australia already absorbed in FY24.** Absentee owner surcharge (AOS) in the State of Victoria increased from 2% to 4% of taxable value of land in 2024. The affected logistics properties in Victoria accounted for 16% of FLT's FY24 gross revenue. The higher AOS for Victoria and higher valuations of its logistics properties in Australia have increased FLT's land & property tax by S\$9m and lowered NPI margin by 2ppt in FY24. Land & property tax should not be substantially higher in FY25 assuming AOS for Victoria remains at 4%.
- Maintains guidance on cost of debt at mid-3% by 4QFY25.** Loans denominated in SGD and GBP that mature in FY25 were S\$210m and S\$203m respectively. In aggregate, they accounted for 18% of FLT's total borrowings. FLT cautioned that cost of debt would continue to rise as loans are refinanced and interest rate swaps are rolled over at higher interest rates in FY25. About 73.3% of FLT's borrowings are hedged to fixed interest rates. Average cost of debt has increased 30bp qoq to 3.1% in 4QFY24. Management has already guided that cost of debt would rise to mid-3% by 4QFY25. The negative impact is blunted by FLT's low aggregate leverage of 33.0%.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	421	447	467	478	493
EBITDA	270	279	296	304	314
Operating profit	270	279	296	304	314
Net profit (rep./act.)	(103)	148	186	184	192
Net profit (adj.)	234	188	186	184	192
EPU (S\$ cent)	6.3	5.0	4.9	4.9	5.0
DPU (S\$ cent)	7.0	6.8	6.4	6.1	6.2
PE (x)	14.0	17.5	17.9	18.1	17.5
P/B (x)	0.8	0.8	0.8	0.8	0.8
DPU Yld (%)	8.0	7.7	7.3	6.9	7.1
Net margin (%)	(24.5)	33.0	39.9	38.6	38.9
Net debt/(cash) to equity (%)	45.7	53.4	59.4	61.2	63.1
Interest cover (x)	6.0	4.4	3.4	3.1	3.2
ROE (%)	(2.2)	3.4	4.4	4.4	4.6
Consensus DPU (S\$ cent)	-	-	6.8	6.8	6.8
UOBKH/Consensus (x)	-	-	0.94	0.89	0.92

Source: Frasers Logistics & Commercial Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.88
Target Price	S\$1.33
Upside	+51.1%
(Previous TP)	S\$1.44

COMPANY DESCRIPTION

FLCT invests in income-producing properties used predominantly for logistics, commercial (CBD office space) or business park (non-CBD office and R&D space) purposes in the Asia Pacific region and Europe.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FLT SP
Shares issued (m):	3,762.2
Market cap (S\$m):	3,310.7
Market cap (US\$m):	2,433.6
3-mth avg daily t'over (US\$m):	14.2

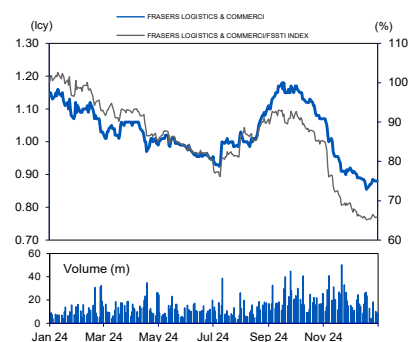
Price Performance (%)

52-week high/low	S\$1.19/S\$0.85			
1mth	3mth	6mth	1yr	YTD
(3.3)	(23.5)	(7.4)	(23.5)	(23.5)

Major Shareholders

Frasers Property Ltd	23.0
FY25 NAV/Share (S\$)	1.11
FY26 Net Debt/Share (S\$)	0.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Pivoting to logistics.** Management plans to increase the allocation for logistics properties to 70-85% (Sep 24: 72%). It has significant debt headroom of S\$801m for acquisition before reaching an aggregate leverage of 40%. FLT will focus on its five core developed markets of Singapore, Australia, Germany, Netherlands and the UK. It will also consider expansion into Japan. FLT may divest some of its commercial properties and recycle the capital to invest in logistics properties.
- Australia: Industry dynamics remain positive.** E-commerce penetration improved 0.7ppt yoy to 13.5% in 3Q24. Rental growth has slowed 7.4%, 8.2% and 12.9% yoy respectively across Sydney, Melbourne and Brisbane. Nevertheless, its logistics properties in Australia are under-rented by 30%, which ensures continued positive rental reversion. Take-up was healthy in Sydney but leasing activities has weakened in Melbourne. Vacancy rate has bounced off the historic low in 1H23 but remains low at 1.9%. The pipeline of new supply is 60% pre-committed for 2024 and over one-third pre-committed for 2025. New supply is expected to ease in 2026.
- Expanding in home base Singapore.** FLT completed the acquisition of a prime logistics property at 2 Tuas South Link 1 for S\$140.3m (2.5% below valuation) on 5 Nov 24. The modern six-storey ramp-up logistics property is in proximity to the Tuas Mega Port within a two-minute drive. It was completed in 2018 (remaining leasehold of 22 years) and has NLA of 56,203sqm. It has an occupancy of 85.8% and a WALE of 1.8 years. The anchor tenants include Bollore and YCH. FLT's Singapore exposure will increase from 9.8% to 11.6% post-acquisition. The property provides NPI yield of 6.6%. NPI yield is higher at 6.9% if we include the occupancy guarantee of 100%. The acquisition will be funded by debt at cost of about 3.5%. Management estimated that the acquisition is accretive to DPU by 1.7% on a pro forma basis for 1HFY24. Aggregate leverage is expected to increase from 32.7% to 34.1%.
- Backfilling vacant space in Singapore.** Occupancy at Alexandra Technopark (ATP) in Singapore was stable at 85.9% in 4QFY24. FLT secured replacement tenants for 25% of tranche one space of 150,000sf (expiry: Feb 24) and 13% of tranche two space of 200,000sf (expiry: Dec 24) vacated by Google Asia Pacific. We expect occupancy at ATP to dip further to 74% in 1QFY25. FLT is working on backfilling the remaining vacant space but competition from other business parks remains tough.
- FLT appoints Ng Wah Keong as CFO.** He was previously the Head of Group Financial Planning & Analysis at Mapletree Investments (Aug 22 to present) and CFO of Mapletree North Asia Commercial Trust (Oct 16 to Aug 22).

EARNINGS REVISION/RISK

- We trim our DPU forecast by 3% for FY25 and 8% for FY26 due to AOS in Australia and leasing downtime for ATP.
- Key assumptions.** FLT dished out capital distribution of S\$29.6m in 2HFY24 (1HFY24: S\$15.6m), bringing total capital distribution to S\$45.2m in FY24. We have factored in a capital distribution of S\$35m in FY25 and S\$25m in FY26. We have also assumed that FLT pays 50% of management fees in units in FY25.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.33 is based on DDM (cost of equity: 7.0%, terminal growth: 2.5%).

SHARE PRICE CATALYST

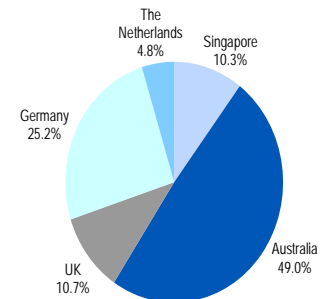
- Acquisitions in Australia and Europe tapping on sponsor pipeline. Backfilling of vacant space at ATP in Singapore and business parks in the UK.

KEY OPERATING METRICS

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	yoy Chg	qoq Chg*
DPU (S cents)	3.52	n.a.	3.48	n.a.	3.32	-5.7	-4.6
Occupancy	96.0%	95.8%	94.3%	95.0%	94.5%	-1.5ppt	-0.5ppt
Aggregate Leverage	30.2%	30.7%	32.7%	33.2%	33.0%	2.8ppt	-0.2ppt
All-in Financing Cost	2.4%	2.6%	2.6%	2.8%	3.1%	0.7ppt	0.3ppt
% Borrowing in Fixed Rates	77.2%	76.8%	75.9%	72.6%	73.3%	-3.9ppt	0.7ppt
WALE by GRI (years)	4.3	4.4	4.3	4.2	4.2	-0.1yrs	0yrs
Debt Maturity (years)	2.2	2.0	2.0	2.0	2.4	0.2yrs	0.4yrs
Rental Reversion	18.9%	18.2%	14.2%	25.1%	26.8%	-3.3ppt	1.7ppt

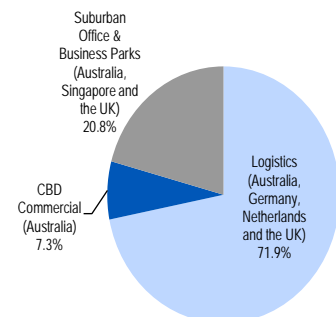
Source: FLT, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY COUNTRY



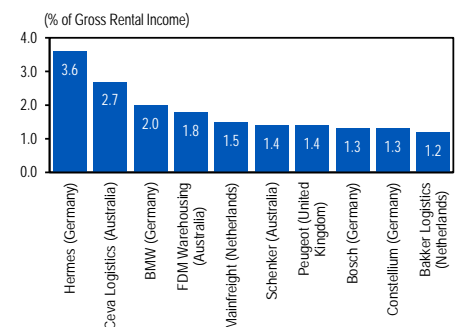
Source: FLT

PORTFOLIO VALUATION BY ASSET TYPE



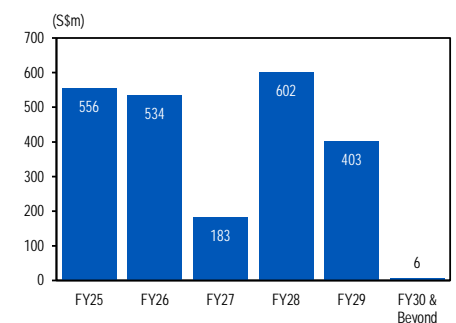
Source: FLT

TOP 10 LOGISTICS TENANTS



Source: FLT

DEBT MATURITY PROFILE



Source: FLT

PROFIT & LOSS

Year to 30 Sep (\$m)	2024	2025F	2026F	2027F
Net turnover	446.7	466.6	478.2	492.7
EBITDA	278.8	295.9	304.4	314.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	278.8	295.9	304.4	314.5
Total other non-operating income	(40.8)	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(63.7)	(87.0)	(97.2)	(98.9)
Pre-tax profit	174.4	208.9	207.2	215.6
Tax	(23.7)	(20.9)	(20.7)	(21.6)
Minorities	(3.2)	(2.1)	(2.1)	(2.2)
Perpetual Securities	0.0	0.0	0.0	0.0
Net profit	147.5	185.9	184.4	191.8
Net profit (adj.)	188.3	185.9	184.4	191.8

BALANCE SHEET

Year to 30 Sep (\$m)	2024	2025F	2026F	2027F
Fixed assets	6,928.4	7,080.7	7,092.7	7,104.7
Other LT assets	30.3	30.3	30.3	30.3
Cash/ST investment	133.6	155.0	156.2	157.8
Other current assets	44.6	52.9	53.8	55.0
Total assets	7,136.9	7,318.9	7,333.0	7,347.8
ST debt	557.2	557.2	557.2	557.2
Other current liabilities	110.9	95.3	97.6	100.4
LT debt	1,855.5	2,100.0	2,150.0	2,200.0
Other LT liabilities	291.1	298.5	304.5	310.8
Shareholders' equity	4,269.5	4,213.2	4,167.0	4,120.5
Minority interest	52.6	54.6	56.7	58.9
Total liabilities & equity	7,136.9	7,318.9	7,333.0	7,347.8

CASH FLOW

Year to 30 Sep (\$m)	2024	2025F	2026F	2027F
Operating	311.4	255.2	287.7	297.4
Pre-tax profit	174.4	208.9	207.2	215.6
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	40.8	(22.4)	1.3	1.6
Non-cash items	62.6	17.3	17.2	17.4
Other operating cashflows	33.6	51.4	62.0	62.9
Investing	(263.7)	(152.3)	(12.0)	(12.0)
Capex (growth)	(183.1)	(140.3)	0.0	0.0
Capex (maintenance)	(88.2)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	5.7	0.0	0.0	0.0
Others	1.9	0.0	0.0	0.0
Financing	(67.4)	(81.5)	(274.5)	(283.9)
Distribution to unitholders	(262.6)	(242.3)	(230.7)	(238.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	264.5	244.5	50.0	50.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(69.3)	(83.7)	(93.9)	(95.6)
Net cash inflow (outflow)	(19.7)	21.5	1.2	1.5
Beginning cash & cash equivalent	152.7	133.6	155.0	156.2
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	133.6	155.0	156.2	157.8

KEY METRICS

Year to 30 Sep (\$m)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	62.4	63.4	63.7	63.8
Pre-tax margin	39.0	44.8	43.3	43.8
Net margin	33.0	39.9	38.6	38.9
ROA	2.1	2.6	2.5	2.6
ROE	3.4	4.4	4.4	4.6
Growth				
Turnover	6.2	4.5	2.5	3.0
EBITDA	3.2	6.1	2.9	3.3
Pre-tax profit	n.a.	19.8	(0.8)	4.0
Net profit	n.a.	26.0	(0.8)	4.0
Net profit (adj.)	(19.5)	(1.2)	(0.8)	4.0
EPU	(20.2)	(1.8)	(1.3)	3.5
Leverage				
Debt to total capital	35.8	38.4	39.1	39.7
Debt to equity	56.5	63.1	65.0	66.9
Net debt/(cash) to equity	53.4	59.4	61.2	63.1
Interest cover (x)	4.4	3.4	3.1	3.2

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