

DBS Group Research . Equity

3 Nov 2016

BUY

Last Traded Price (2 Nov 2016): S\$0.97 (STI : 2,807.14)

Price Target 12-mth: S\$1.10 (13% upside)

Potential Catalyst: Acquisitions

Where we differ: Estimates are more conservative than consensus

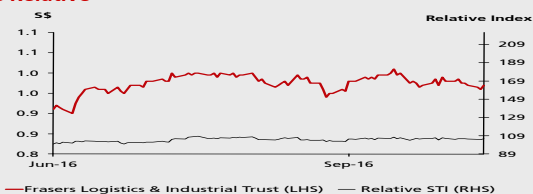
Analyst

Derek TAN +65 6682 3716 derektan@dbs.com

Mervin SONG CFA +65 6682 3715 mervinsong@dbs.com

What's New

- **Maiden distribution exceeds forecasts by 2.8%**
- **Low gearing of c.28% as of Sept'16 offers opportunity to acquire properties**
- **Attractive valuations; BUY with S\$1.10 TP**

Price Relative**Forecasts and Valuation**

FY Sep (A\$m)	2016A	2017F	2018F	2019F
Gross Revenue	43.1	162	162	162
Net Property Inc	35.7	137	136	135
Total Return	3.87	83.3	86.5	90.2
Distribution Inc	26.4	95.0	98.3	102
EPU (S cts)	0.54	6.15	6.34	6.55
EPU Gth (%)	nm	nm	3	3
DPU (S cts)	1.85	6.61	6.79	7.0
DPU Gth (%)	nm	258	3	3
NAV per shr (S cts)	87.0	87.0	87.0	87.0
PE (X)	*15.8	15.7	15.3	14.8
Distribution Yield (%)	*6.7	7.0	7.1	7.3
P/NAV (x)	1.0	1.1	1.1	1.1
Aggregate Leverage (%)	29.3	30.6	30.8	30.9
ROAE (%)	0.6	6.7	6.9	7.2

Distn. Inc Chng (%)		1	1	1
Consensus DPU (S cts)		7.00	7.00	7.21
Other Broker Recs:		B: 4	S: 0	H: 1

*annualised

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Positioned to grow

Maintain BUY, TP S\$1.10. We believe that Frasers Logistics & Industrial Trust (FLT) offers good returns with a prospective yield of close to 7.0% which is attractive in the current low-yield environment. With an under-g geared balance sheet, FLT is poised to grow through acquisitions from a visible pipeline of development and completed properties from their sponsor. Maintain BUY and TP at S\$1.10. In addition, upside to earnings will come potentially from the rollover of forex hedges (currently A\$1 to S\$1) to current spot rates which are 6% higher.

Maiden distribution exceeds forecasts. FLT's maiden distribution (DPU) of 1.84 Scts exceeds IPO forecasts by close to 2.8%. This was mainly due to lower-than-projected interest costs at 2.8% vs 3.4% (forecasted during IPO). Revenue and net property income of A\$43.1m and A\$32.7m were marginally ahead of IPO forecasts at +0.8% and 0.02% respectively. Portfolio occupancy increased marginally to 99.2%. The forward outlook remains stable given limited expiries over the coming year.

Visible ROFR pipeline. The Sponsor has granted FLT a right of first refusal (ROFR) over any of the completed income-producing industrial properties it intends to divest. This currently comprises 11 properties which can be acquired in the medium term.

Valuation:

BUY maintained, TP S\$1.10. Our TP is based on DCF and we have not assumed any further acquisitions. Our TP offers 15% upside to current price.

Key Risks to Our View:

Currency risk. As the manager pays its distributions in SGD but earns in AUD, the REIT is exposed to currency fluctuations. The manager attempts to reduce foreign fluctuations by hedging distributions regularly.

At A Glance

Issued Capital (m shrs)	1,425
Mkt. Cap (S\$m/US\$m)	1,382 / 997
Major Shareholders (%)	
FCL Investments (Industrial) Pte	20.5
TCC Group Investments Limited	6.3
Principal Financial Group	5.0
Free Float (%)	68.2
3m Avg. Daily Val (US\$m)	2.1

ICB Industry : Financials / Real Estate Investment Trusts

WHAT'S NEW**Riding ahead of IPO forecasts**

Maiden distribution exceeds forecasts. Fraser's Logistics & Industrial Trust (FLT) reported its maiden distribution (DPU) of 1.84 Scts, exceeding IPO forecasts by close to 2.8%. This was mainly due to lower-than-projected interest costs at 2.8% vs 3.4% (forecasted during IPO). Revenue and net property income of A\$43.1m and A\$32.7m were marginally ahead of IPO forecasts at +0.8% and 0.02% respectively. Portfolio occupancy increased marginally to 99.2%. The increase is mainly due to the leasing of a vacant tenancy at Lot 5 Kangaroo Avenue, Easter Creek ahead of forecast, coupled with the acquisition of two call option properties (out of three).

Prudent currency hedging strategy. Exchange rate has been hedged at A\$1 to S\$0.997 for the current distribution and we understand that the manager has hedged out distributions all the way out to September 2017 at fairly similar rates, which was a strategy advocated during the IPO. We see this as a prudent strategy to eliminate any volatility in currency fluctuations which could have an impact on actual operational performance. However, we do prefer a shorter hedging profile in order for distributions to mirror closely to the actual exchange rate for the quarter. Looking ahead, the manager looks to consistently hedge out distributions in the medium term.

Outlook – Stable but watchful of FY18 lease expiries. FLT has one of the longest weighted average lease expiries among the industrial REITs at 6.6 years. Minimal expiries with <1% of leases will expire in 2017. The trust has also forward renewed leases expiring in FY18 (10.7% during IPO vs 8.3% currently). The manager has renewed existing and new leases for the quarter with rental reversions fairly mixed. We note that FLT has close to 8.3% of its rental income up for renewal in FY18 and the manager is in active discussions with existing tenants to renew the leases ahead of time. With the exception of Sydney where market rents have been rising steadily over the past few years, rents in Melbourne and Brisbane have been fairly flat, meaning that there is risk of rental reversions impacting on the REIT's growth momentum.

Balance sheet; gearing up for acquisitions. Gearing remains low at 28.2% with significant headroom of A\$549m to the 45% level.

Valuations were lifted up by A\$24m (or 1.47%) as of 30 September 2016, mainly due to a slight 4-bp compression in cap rates (portfolio weighted average cap rate declined from 7.0% to 6.96%). However, FLT reported a A\$3.3m revaluation loss mainly due to previously capitalised stamp duties during the IPO. As a result, NAV remains stable at 0.87 Scts.

Quarterly / Interim Income Statement (A\$m)

FY Sep (A\$)	Period 20/6/2016 – 30/9/2016	IPO forecast	% Change
Gross revenue	43.1	42.7	0.8
Property expenses	(7.4)	(6.7)	(10.4)
Net Property Income	35.7	36.0	(1.0)
Other Operating expenses	(12.8)	(15.1)	(15.0)
Other Non Opg (Exp)/Inc	(5.7)	-	n.m.
Net Interest (Exp)/Inc	(3.8)	(4.5)	12.9
Exceptional Gain/(Loss)	0.0	0.0	0.0
Net Income	13.4	16.4	(20.0)
Tax	(6.1)	(3.9)	(55.9)
Minority Interest	0.0	0.0	-
Net Income after Tax	7.24	12.5	(43.0)
Total Return	3.87	(17.2)	n.m.
Non-tax deductible Items	22.5	43.0	(47.6)
Net Inc available for Dist.	26.4	25.8	2.3
Ratio (%)			
Net Prop Inc Margin	82.9	84.3	
Dist. Payout Ratio	100.0	100.0	

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Unique pure-play Australia play. Fraser's Logistics & Industrial Trust (FLT) offers investors the unique opportunity to invest in a portfolio of 53 assets (as at end of September 2016) that are concentrated within major industrial markets in Australia, including Melbourne, Sydney and Brisbane. Apart from a geographically diversified portfolio, the REIT's tenants are mainly in the consumer and logistics sectors which are expected to remain resilient and continue growing as Australia's economy transitions itself from being resource-led to consumption-led.

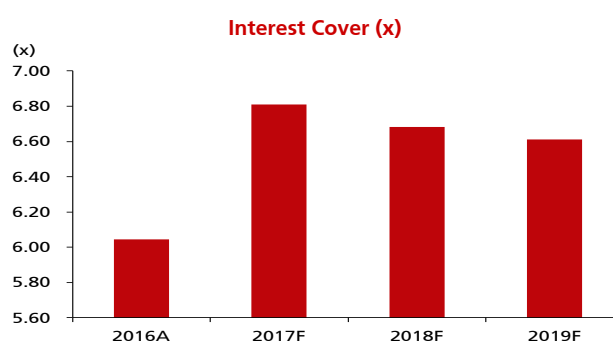
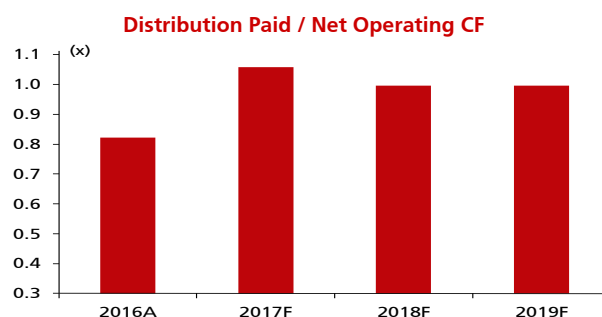
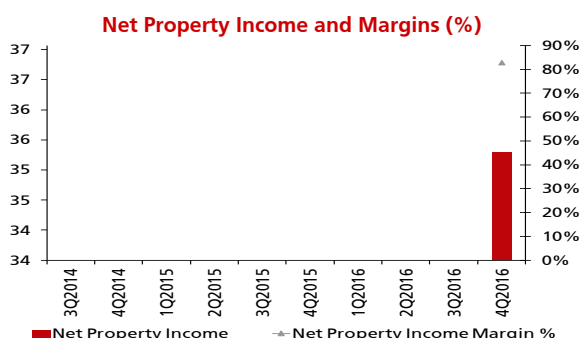
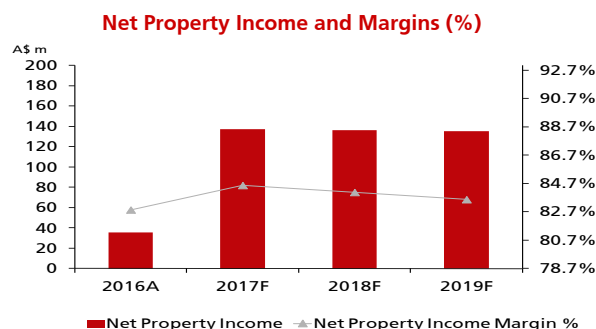
Long WALE of 6.6 years with in-built organic growth a key trait in current uncertain environment. In our view, the long WALE by Adjusted Gross Rental Income of 6.6 years, which is longer than the majority of Singapore industrial REITs (between 2.9 and 4.7 years), provides strong cashflow visibility.

In addition, FLT's organic growth is underpinned by in-built rental escalations. All of the leases of the initial portfolio have fixed and/or Consumer Price Index-linked (CPI-linked) increments. The fixed rental increments, which are built into the existing leases, range from 2.5-3.75% which translates to an average annual rental increment of c.3.2% for the Initial Portfolio.

Predominantly freehold and long leasehold land tenure is a positive. FLT's portfolio predominantly comprises properties on freehold (60.0% by appraised value) and long leasehold land (30.2% on leasehold land with a tenure of more than 80 years). FLT's weighted land lease expiry of c.82 years is double that of other industrial S-REITs' average of 41 years. Based on our estimates, the component of capital return based on the remaining leasehold tenure on FLT's annual distribution yield (at c.0.5%) is much smaller than the average of 2-3% for most industrial S-REITs.

Strong Sponsor with long track record of development and management of Australian Industrial assets. FLT's subsidiary Fraser's Property Australia Pty Limited (FPA) offers FLT access to a strong and fully integrated real estate platform. In particular, FPA's industrial business has an end-to-end capability and leadership in the development of industrial assets, having developed over A\$3.5bn worth of industrial assets since 2001.

The Sponsor has granted FLT a right of first refusal (ROFR) over any of the completed income-producing industrial properties it intends to divest. This currently comprises eleven existing properties in Australia.



Source: Company, DBS Bank

Frasers Logistics & Industrial Trust

Balance Sheet:

Balance sheet; gearing up for acquisitions. Gearing is projected to remain fairly stable at c.31% in the medium term. The low gearing level allows significant headroom for the manager to execute on opportunistic acquisitions when the time arises. The manager has a medium-term target gearing level of c.35-40%, implying there is headroom to gear up.

Healthy financial metrics. The REIT has minimal debt expiries till FY19 with a weighted average cost of borrowing of 2.8%. Interest coverage ratio remains healthy at >7.0%. Close to 84% of the debt is hedged, implying minimal volatility to distributions in the event of an interest rate hike.

Share Price Drivers:

Executing on acquisitions. FLT is looking to complete the planned acquisition of Martin Brower property in the coming quarter which will bring gearing up to the c.30-31% level. Despite this, we believe that the portfolio remains under-g geared in relation to peers and optimal level. With opportunities abundant in the market, we believe that the execution of more acquisitions which is projected to be accretive to earnings, will be a catalyst for its stock price.

Key Risks:

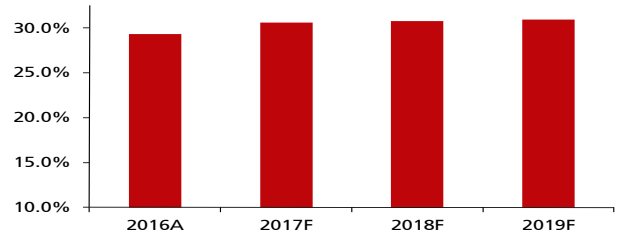
Single-country concentration. While FLT provides exposure to the Australian industrial market, as a pure-play REIT, its portfolio is 100% concentrated in Australia. However, this risk is mitigated by the fact that its portfolio is diversified across five states in Australia and various industries.

The geographic and tenant diversity across various industries imply that the REIT is not dependent and over-reliant on the performance of any particular industry.

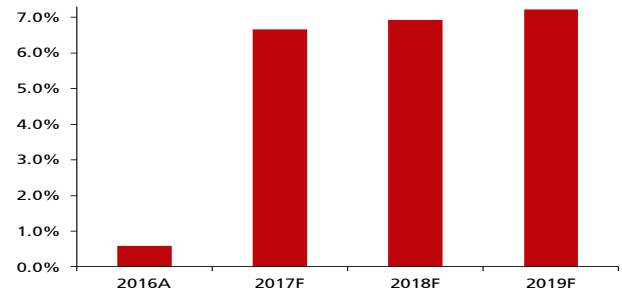
Company Background

FLT offers investors a unique opportunity to gain exposure to the growing Australia industrial and logistics sector. Frasers Logistics & Industrial Trust (FLT) offers investors a unique opportunity to invest in a quality portfolio of industrial assets in Australia. FLT's initial portfolio consists of 51 properties spread across five states in Australia with an appraised value of A\$1,584.6m. The initial portfolio is well diversified across the key states of Victoria (40% of appraised value), New South Wales (28%) and Queensland (28%).

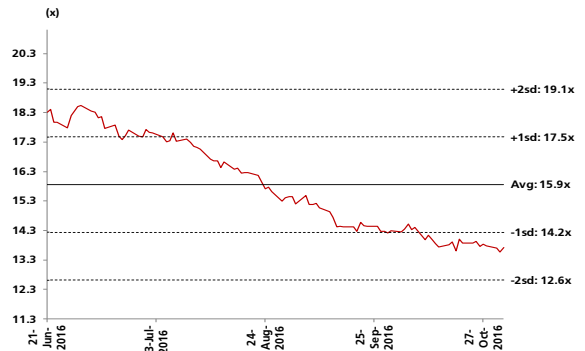
Aggregate Leverage (%)



ROE (%)



**Distribution Yield (%)
PB Band (x)**



Source: Company, DBS Bank

Income Statement (A\$m)

FY Sep	2016A	2017F	2018F	2019F
Gross revenue	43.1	162	162	162
Property expenses	(7.4)	(24.9)	(25.7)	(26.5)
Net Property Income	35.7	137	136	135
Other Operating expenses	(12.8)	(14.0)	(14.2)	(14.2)
Other Non Opg (Exp)/Inc	(5.7)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(3.8)	(18.1)	(18.3)	(18.3)
Exceptional Gain/(Loss)	0.0	(12.5)	(7.7)	(2.8)
Net Income	13.4	92.5	96.2	100
Tax	(6.1)	(9.3)	(9.6)	(10.0)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	7.24	83.3	86.5	90.2
Total Return	3.87	83.3	86.5	90.2
Non-tax deductible Items	22.5	11.7	11.8	11.8
Net Inc available for Dist.	26.4	95.0	98.3	102
Growth & Ratio				
Revenue Gth (%)	N/A	276.3	0.0	0.0
N Property Inc Gth (%)	nm	284.2	(0.6)	(0.6)
Net Inc Gth (%)	nm	1,049.9	3.9	4.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	82.9	84.6	84.1	83.6
Net Income Margins (%)	16.8	51.4	53.4	55.7
Dist to revenue (%)	61.3	58.6	60.7	62.9
Managers & Trustee's fees	29.7	8.7	8.7	8.7
ROAE (%)	0.6	6.7	6.9	7.2
ROA (%)	0.4	4.7	4.8	5.0
ROCE (%)	0.7	6.3	6.1	6.1
Int. Cover (x)	6.0	6.8	6.7	6.6

Source: Company, DBS Bank

Driven mainly by annual rental escalations coupled with acquisitions

Interest cost locked in

Fraser's Logistics & Industrial Trust

Quarterly / Interim Income Statement (A\$m)

FY Sep	4Q2016
Gross revenue	43.1
Property expenses	(7.4)
Net Property Income	35.7
Other Operating expenses	(12.8)
Other Non Opg (Exp)/Inc	(5.7)
Net Interest (Exp)/Inc	(3.8)
Exceptional Gain/(Loss)	0.0
Net Income	13.4
Tax	(6.1)
Minority Interest	0.0
Net Income after Tax	7.24
Total Return	3.87
Non-tax deductible Items	22.5
Net Inc available for Dist.	26.4
Growth & Ratio	
Revenue Gth (%)	N/A
N Property Inc Gth (%)	nm
Net Inc Gth (%)	nm
Net Prop Inc Margin (%)	82.9
Dist. Payout Ratio (%)	100.0

Maiden distributions

Balance Sheet (A\$m)

FY Sep	2016A	2017F	2018F	2019F
Investment Properties	1,678	1,753	1,757	1,761
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invts	85.8	50.6	51.0	51.4
Inventory	0.0	0.0	0.0	0.0
Debtors	4.96	8.10	8.10	8.10
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	1,768	1,811	1,816	1,820
ST Debt	0.0	0.0	0.0	0.0
Creditor	2.24	8.10	8.10	8.10
Other Current Liab	17.2	9.25	9.62	10.0
LT Debt	492	537	541	545
Other LT Liabilities	8.21	8.21	8.21	8.21
Unit holders' funds	1,249	1,249	1,249	1,249
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,768	1,811	1,816	1,820
Non-Cash Wkg. Capital	(14.5)	(9.3)	(9.6)	(10.0)
Net Cash/(Debt)	(406)	(486)	(490)	(493)
Ratio				
Current Ratio (x)	4.7	3.4	3.3	3.3
Quick Ratio (x)	4.7	3.4	3.3	3.3
Aggregate Leverage (%)	29.3	30.6	30.8	30.9

Gearing to remain stable

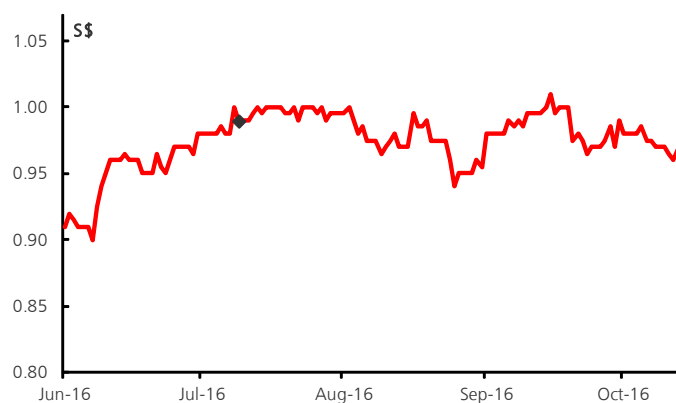
Source: Company, DBS Bank

Cash Flow Statement (A\$m)

FY Sep	2016A	2017F	2018F	2019F
Pre-Tax Income	13.4	92.5	96.2	100
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	0.0	(17.2)	(9.3)	(9.6)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	12.1	2.72	0.0	0.0
Other Operating CF	6.69	11.7	11.8	11.8
Net Operating CF	32.1	89.8	98.7	102
Net Invnt in Properties	(1,365)	(75.0)	(4.0)	(4.0)
Other Invnts (net)	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	(29.6)	0.0	0.0	0.0
Net Investing CF	(1,394)	(75.0)	(4.0)	(4.0)
Distribution Paid	(26.4)	(95.0)	(98.3)	(102)
Chg in Gross Debt	491	45.0	4.00	4.00
New units issued	982	0.0	0.0	0.0
Other Financing CF	(9.0)	0.0	0.0	0.0
Net Financing CF	1,438	(50.0)	(94.3)	(97.9)
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	75.8	(35.2)	0.36	0.40
Operating CFPS (S cts)	1.49	6.43	7.23	7.44
Free CFPS (S cts)	(98.9)	1.09	6.94	7.14

Assumed acquisition of Martin Brower property

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date	Closing Price	Target Price	Rating
1	29 Jul 16	0.99	1.10	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Derek TAN

Mervin SONG CFA

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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DBS Bank Ltd
 12 Marina Boulevard, Marina Bay Financial Centre Tower 3
 Singapore 018982
 Tel. 65-6878 8888
 e-mail: equityresearch@dbs.com
 Company Regn. No. 196800306E