

ESR REIT (EREIT SP)

Income vacuum to be partially offset by organic growth

DPU stabilised

EREIT reported FY25 DPU of 21.44c, +3.4% YoY. Growth was underpinned by 11.7% rental reversion, +3ppts YoY improvement in NPI margin, and inorganic contributions. Portfolio occupancy slid sequentially by 1.2ppts due to ongoing asset enhancement initiatives (AEI). Gearing declined on a pro-forma basis post divestments, while cost of debt eased following the grant of an investment-grade rating. We expect the income vacuum post divestment to be partially offset by higher occupancy, sustained mid-single-digit rental reversion, a potential Japan acquisition, and capital top-ups. We maintain BUY with an unchanged DDM-based TP of SGD3.00.

Resilient rental reversion

EREIT reported FY25 revenue of SGD446.0m (+20.4% YoY) and NPI of SGD328.7m (+25.6% YoY). On a same-store basis, FY25 NPI grew 2.7% YoY, driven by positive rental reversion, NPI contributions from completed AEI, and lower utilities expenses. Occupancy stood at 91.1% (3Q: 90.3%). Management is confident of improvement in FY26E following the divestment of Hotel Strata Lot and gradual backfilling at 16 Tai Seng to c.70% (FY25: 60%). Rental reversion came in at +11.7%, with strong demand observed in the high-spec and logistics segments. Although c.28% of leases are due for expiry in FY26E and largely marked to market, we expect rental reversion to moderate to mid-single digits.

Proactive debt management

Gearing would be 38.5% on pro-forma basis (3Q 43.3%). Cost of debt fell further to 3.35% (3Q: 3.40%) with guide for flattish in FY26E and c.3% in FY27E. Valuation for SG and JP asset dipped due to land lease decay and depreciation of Yen while AU improved due to cap rate compression.

Maintain BUY

We lower our FY25/26E DPU by 3.8% due to the potential income vacuum from the recent divestments, while maintaining our TP of SGD3.00 after applying a lower COE on the back of improved gearing. Maintain BUY.

FYE Dec (SGD m)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	371	446	438	446	432
Net property income	262	329	320	325	297
Core net profit	149	149	131	144	119
Core EPU (cts)	1.7	22.3	23.7	23.8	20.5
Core EPU growth (%)	(15.8)	1,208.3	6.6	0.4	(14.0)
DPU (cts)	2.1	21.9	20.8	21.2	18.0
DPU growth (%)	(17.4)	934.2	(5.1)	1.8	(14.9)
P/NTA (x)	9.3	1.1	1.2	1.2	1.2
DPU yield (%)	0.8	7.6	7.2	7.4	6.3
ROAE (%)	5.6	8.4	9.4	9.7	8.3
ROAA (%)	2.7	2.5	2.2	2.4	2.0
Debt/Assets (x)	0.38	0.38	0.38	0.37	0.37
Consensus DPU	-	-	22.0	22.2	na
MIBG vs. Consensus (%)	-	-	(5.5)	(4.6)	na

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BUY

Share Price	SGD 2.87
12m Price Target	SGD 3.00 (+13%)
Previous Price Target	SGD 3.00

Company Description

ESR REIT operates as a real estate investment trust company, which invests in income-producing industrial properties.

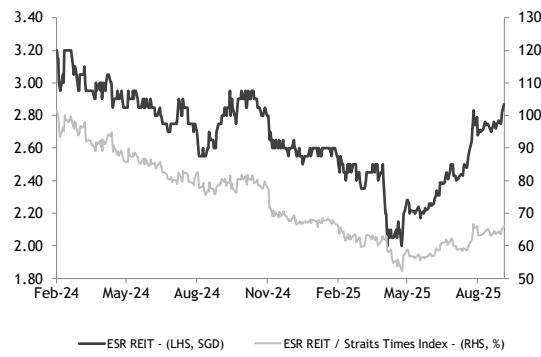
Statistics

52w high/low (SGD)	2.87/2.00
3m avg turnover (USDm)	#NAME?
Free float (%)	78.8
Issued shares (m)	805
Market capitalisation	SGD2.3B USD1.8B

Major shareholders:

ESR Singapore Pte Ltd.	12.1%
TONG JIN QUAN	5.3%
The Caisse de depot et placement du Quebec	3.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	0	13
Relative to index (%)	(6)	(11)	(13)

Source: FactSet

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Tear Sheet Insert

1. Capital recycling

EREIT has divested SGD439.1m (c.8.9% of FY24 AUM) of assets at prices of up to 3.5% premium to valuation. The focus in FY26E will shift towards acquisitions in Japan, with EFR unlikely to be an option. The divestments are expected to complete by May-26, with income still flowing through until then. Organic growth from the completion of AEI at 16 and 29 Tai Seng Street will support topline growth. In addition, the redevelopment of 2 Fishery Port Road, with an estimated yield on cost of 7% and capex of c.SGD200-250m, is expected to further unlock value.

2. FY25 results

Fig 1: Financial and operating highlights

SGD(m) unless stated otherwise	FY24	FY25	YoY	1H25	2H25	HoH
Gross revenue	370.50	446.00	20.40%	222.90	223.10	0.09%
Same store basis	363.70	373.60	2.70%	186.10	187.50	0.75%
NPI	261.70	328.70	25.60%	166.30	162.40	-2.35%
Same store basis	255.70	265.90	4.00%	133.80	132.10	-1.27%
Mgmt fee & trust expense	-28.40	-29.95	5.47%	-15.37	-14.59	-5.09%
Borrowing cost	-68.89	-84.92	23.28%	-44.64	-40.28	-9.76%
NOI	-97.66	61.55	-	38.48	23.07	-40.04%
Distribution to perp	164.10	176.10	7.31%	90.17	85.93	-4.70%
Distributable income	154.40	172.30	11.60%	86.40	85.90	-0.58%
DPU, SGDc.	21.19	21.91	3.42%	11.24	10.68	-5.02%
NAV, SGD	2.75	2.55	-7.27%	2.66	2.44	-8.27%
Rent reversion, YTD, %	10.30%	11.70%	13.59%	9.70%	14%	41.24%
Occupancy, %	92.30%	91.10%	-1.30%	91.20%	91%	-0.22%
Gearing, %	42.80%			42.60%	-43%	
Cost of debt, %	3.84%	3.35%		3.47%	3%	
ICR, x	2.50	2.50		2.40	2.60	
Total borrowings	2.25	2.22		2.20	2.25	

Source: Maybank IBG Research

3. Estimate changes

Fig 2: Changes to our forecasts for EREIT

	FY26E (old)	FY27E (old)	FY26E (new)	FY27E (new)	FY26E (% change)	FY27E (% change)
Revenue (SGDm)	449.5	450.0	437.9	446.0	(2.6)	(0.9)
NPI (SGDm)	333.2	334.0	319.8	325.4	(4.0)	(2.6)
Distribution to unitholders	175.7	186.5	170.4	183.6	(3.0)	(1.6)
DPU (SG cts)	21.6	22.0	20.8	21.2	(3.8)	(3.8)

Source: Maybank IBG Research

4. Valuation

We value EREIT using a 3-stage dividend discount model. We lower our COE to 7.3% from 7.5%, reflecting lower risk-free rates and the REIT's reduced gearing. We updated our model to factor in: a) the divestment of eight assets in Dec-25 (expected completion: May-26), b) the divestment of Hotel Strata Lot (expected completion: Mar-26), and c) the ramp-up in occupancy at 16 Tai Seng Street to c.70% by FY26E. We lower our FY25/26E DPU by 3.8% due to the potential income vacuum from the recent divestments, while maintaining our TP of SGD3.00 after applying a lower COE on the back of improved gearing. Maintain BUY.

While concerns remain over continued NAV erosion from short land tenures and the frictional DPU impact from ongoing portfolio reconstitution, we believe the relatively high yield, efforts to reduce assets with land tenure below 15 years to c.10% (3Q25: 12%) via divestments, and a potential Japan acquisition more than compensate for these risks.

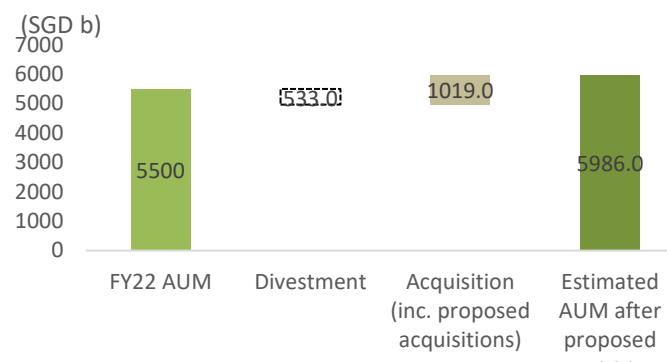
5. Risks

NAV erosion, dilutive corporate action. Overhang from any substantial shareholder/sponsor related transactions.

Value Proposition

- Singapore industrial REIT underpinned by portfolio rebalancing and 7-8% dividend yield.
- Material portfolio exposure to Singapore (84% of AUM) and new economy (71%) assets, set to capitalize on stability/growth.
- Diversified footprint in Australia and Japan. Sizeable portfolio (SGD5.7b in 1HFY25).
- Management sticks to asset-enhancement strategy, upgrading general industrial assets into higher-value high-spec space.

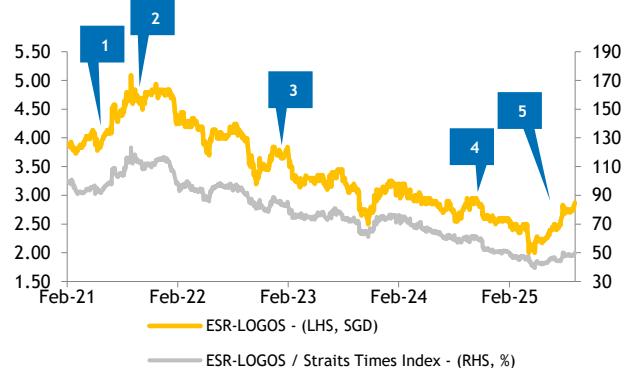
EREIT's capital recycling since merger



Source: Company

Price Drivers

Historical share price trend



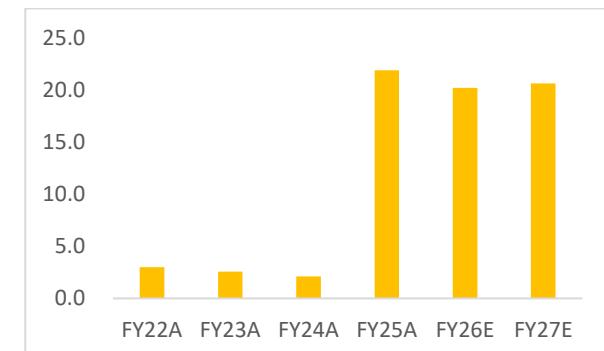
Source: Company, Maybank IBG Research

1. May-21: Acquired 10% of ESR Australia (not listed) logistics portfolio for AUD60.5m, fully funded via debt. Raised SGD100m via private placement (SGD0.372/sh) for acquisition of new logistics asset (46A Tanjong Penjuru).
2. Aug-21: Announced merger with ARA LOGOS REIT via way of trust scheme of arrangement, at an implied gross exchange ratio of 1.970x.
3. Feb-23: Conducted SGD300m Equity Fund Raising via preferential offering (SGD0.325/sh) and private placement (SGD0.33/sh).
4. Aug-24: Proposed acquisition of Japan ESR Yatomi Kisosaki Distribution Centre and 51% stake in 20 Tuas South Avenue 14. Proposed preferential offering of SGD194m fully stopped by sponsor ESR Group and third party investor Ivanhoe Cambridge.
5. May-25: Adjusted for 10:1 unit consolidation

Financial Metrics

- Dividend yield is attractive at 7-8%, and positive rental reversions continues for new economy sector. However, we expect DPU to be stable due to ongoing portfolio rebalancing
- NAV impacted by short leasehold land and FX.

DPU forecast, SGDc.



Source: Company

Swing Factors

Upside

- Faster-than-expected acquisitions that are structured in a way that are accretive to shareholders.
- Sooner-than-expected completion of redevelopment assets.
- Stronger leasing demand to drive occupancy and positive rental reversions.
- Signing of new tenants to drive up occupancy rate at under-leased properties.

Downside

- Normalization of high funding costs.
- Dilutive divestments.
- Termination of long-term leases causing loss of income.
- Slowdown in economic activity or structural changes in supply chain norm in Singapore or Australia, reducing demand for logistics and warehouse assets.
- Weaker-than-expected leasing demand for business parks and general industrial assets, resulting in falling occupancy and rents.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	4 Oct 2022
Controversy Score ³ (Updated: 4 Oct 2022)	na

Business Model & Industry Issues

- EREIT draws on its available pool of funds to invest in industrial real estate, carry out asset enhancements and redevelop properties to optimise value for its unitholders. Its activities relating to permissible investments, leverage limits, and annual reporting requirements are regulated by the MAS under Singapore's code on collective investment schemes.
- The manager successfully maintained employee and tenant satisfaction at 78%/81% respectively despite the pandemic, whilst maintaining zero Covid-19 cases or work-related injuries and staying in compliance with social-economic laws and regulations.

Material E issues

- Implemented Environmental Policy and Green Procurement Policy in FY21. The former outlines the manager's sustainability focuses.
- Reduced grid electricity consumption and consumption intensity by 5.5% YoY and 9.7%, respectively, in FY20.
- Installed rooftop solar panels on 12 properties under E REIT Solar Harvesting Programme. Targets 50% increase in solar power generation by 2025 (from base year 2019).
- Targets net zero carbon for certain Singapore properties by 2030. 30/32 multi-tenanted buildings were "Water Efficiency Building" certified, up from 22 as of 2019, with water intensity also reduced by 6%.
- Targets GMC for all buildings undergoing AEI from 2019 onwards. Targets for GRESB benchmark through continued submission. Obtained ISO14001:2015 Environmental Management System certification.
- No incidents of non-compliance with environmental regulations and laws.

Key G metrics and issues

- Sponsor ESR Cayman (~13.9% stake) provides a strong and visible pipeline of assets and support, particularly for the REIT's growth ambitions outside of Singapore.
- Independent Chairman Stephanie Yuen Thio and other independent directors are unrelated to any members of management.
- The remuneration committee comprises 3 non-executive directors, mostly independent except for Mr. Jeffrey Perlman, whom is also Chairman of ESR Cayman.
- The audit committee is mostly independent, comprising 3 non-executives.
- Management fee structure is in line with peers, with 0.5% base fee of deposited properties, 25% performance fee based on DPU growth (subject to high watermark), 0.5% divestment and 1% acquisition fee.
- Payout ratio averaged ~98.2% since listing, consistently above the 90% minimum threshold.

Material S issues

- Zero Covid-19 cases or work-related injuries amongst employees by applying strict workplace safety measures.
- Zero material incidents of non-compliance with socio economic laws and regulations.
- Employee satisfaction at 81% with a response rate of 94%.
- Transition to bi-weekly online activities such as workout classes and health talks helped cure social disconnect.
- Manager purchased cash vouchers from F&B tenants to help provide a boost in sales under Covid-19 Care Initiative.
- Grew tenant satisfaction from 69% in 2018 to 78% in 2021.
- 69% of employees are female, including Chairperson Ms. Stefanie Yuen Thio.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY24A	FY25A	FY26E	FY27E	FY28E
Key Metrics					
Price/DPU(x)	120.3	13.1	13.8	13.6	15.9
P/BV (x)	9.3	1.1	1.2	1.2	1.2
P/NTA (x)	9.3	1.1	1.2	1.2	1.2
DPU yield (%)	0.8	7.6	7.2	7.4	6.3
FCF yield (%)	1.2	10.7	12.9	12.4	11.3
INCOME STATEMENT (SGD m)					
Revenue	370.5	446.0	437.9	446.0	432.2
Net property income	261.7	328.7	319.8	325.4	296.8
Management and trustee fees	(28.4)	(30.0)	(32.3)	(32.6)	(32.9)
Net financing costs	(68.9)	(84.9)	(70.4)	(63.8)	(57.5)
Associates & JV	2.8	0.0	4.4	4.5	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	1.0	2.0	2.0	2.0	2.0
Pretax profit	168.2	215.8	223.5	235.6	208.4
Income tax	(11.7)	(7.8)	(6.0)	(6.4)	(5.6)
Minorities	(20.3)	(26.1)	(23.7)	(23.7)	(23.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	131.8	179.3	194.6	206.6	180.4
Core net profit	149.1	148.8	130.6	143.7	118.7
Distributable inc to unitholders	164.1	176.1	170.4	183.6	158.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	83.9	60.3	51.5	57.9	71.7
Accounts receivable	60.5	22.9	23.3	23.8	24.3
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	5,548.7	5,013.2	5,059.3	5,105.4	5,151.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	39.8	39.3	39.3	39.3	39.3
Other assets	274.5	729.2	729.2	729.2	729.2
Total assets	6,007.4	5,864.8	5,902.6	5,955.5	6,015.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	127.0	96.6	98.6	100.5	102.5
LT interest bearing debt	2,254.0	2,224.6	2,224.6	2,224.6	2,224.6
Other liabilities	950.7	962.4	959.0	961.7	964.4
Total Liabilities	3,331.7	3,283.5	3,282.1	3,286.8	3,291.5
Shareholders Equity	2,213.9	2,055.6	2,101.7	2,149.2	2,199.9
Minority Interest	461.8	525.7	518.7	519.6	524.6
Total shareholder equity	2,675.7	2,581.3	2,620.4	2,668.8	2,724.5
Total liabilities and equity	6,007.4	5,864.8	5,902.6	5,955.5	6,015.9
CASH FLOW (SGD m)					
Cash flow from operations	269.6	294.2	350.4	355.7	331.2
Capex	(26.2)	(46.1)	(46.1)	(46.1)	(46.1)
Acquisitions & investments	(423.9)	7.8	0.0	0.0	2.7
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	4.3	3.5	0.0	0.0	0.0
Other investing cash flow	8.9	7.6	0.5	0.5	0.5
CF from investing activities	(437.0)	(27.2)	(45.6)	(45.6)	(42.9)
Dividends paid	(177.4)	(167.9)	(170.4)	(183.6)	(158.6)
Interest expense	(67.1)	(81.3)	(70.4)	(63.8)	(57.5)
Change in debt	326.7	(16.9)	0.0	0.0	0.0
Equity raised / (purchased)	88.2	0.0	0.0	0.0	0.0
Other financial activities	43.2	66.9	(57.0)	(57.0)	(57.0)
CF from financing activities	213.5	(199.3)	(297.9)	(304.3)	(273.1)
Effect of exchange rate changes	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)
Net cash flow	33.1	(22.9)	6.9	7.8	15.2

FYE 31 Dec	FY24A	FY25A	FY26E	FY27E	FY28E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.1)	20.4	(1.8)	1.8	(3.1)
Net property income growth	(4.2)	25.6	(2.7)	1.8	(8.8)
Core net profit growth	(5.8)	(0.2)	(12.3)	10.1	(17.4)
Distributable income growth	(14.9)	7.3	(3.2)	7.7	(13.6)
Profitability ratios (%)					
Net property income margin	70.6	73.7	73.0	73.0	68.7
Core net profit margin	40.2	33.4	29.8	32.2	27.5
Payout ratio	124.5	98.4	87.6	88.9	87.9
DuPont analysis					
Total return margin (%)	35.6	40.2	44.4	46.3	41.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.7	2.9	2.8	2.8	2.7
ROAE (%)	5.6	8.4	9.4	9.7	8.3
ROAA (%)	2.7	2.5	2.2	2.4	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.8
Net gearing (%) (excl. perps)	81.1	83.8	82.9	81.2	79.0
Net interest cover (x)	3.4	3.5	4.1	4.6	4.6
Debt/EBITDA (x)	9.7	7.4	7.7	7.6	8.4
Capex/revenue (%)	7.1	10.3	10.5	10.3	10.7
Net debt/ (net cash)	2,170.1	2,164.3	2,173.1	2,166.7	2,152.9
Debt/Assets (x)	0.38	0.38	0.38	0.37	0.37

Source: Company; Maybank IBG Research

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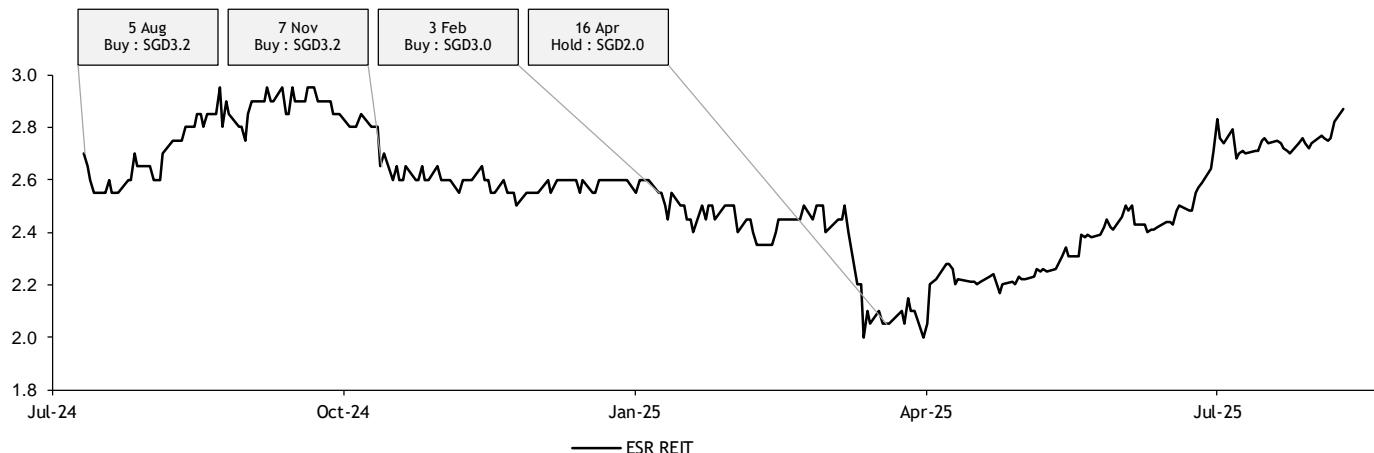
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