

Launching China Logistics Fund To Capture Attractive China Growth

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GLP SP | GLPL.SI | GLP.SG

Industry: Logistics Property

Phillip Securities Research Pte Ltd

15 November 2013

Report type: Updates

Company Overview

GLP is one of the largest modern logistic facility providers in the world. It has established market leaderships in all the 3 markets it operates in: China, Japan and Brazil. GLP owns, manages and leases out logistic properties that are strategically located in key logistics hubs, industrial zones and urban distribution centers.

- Reported 1H14 PATMI of US\$349 mn (0% y-y), and Revenue of US\$277 mn (-19% y-y) due to sales of assets to J-REIT in 4Q13 and weakening of JPY
- New and expansion leases at 575,000 sqm, up 60% y-y
- Started development of 1.1 mn sqm GFA in China, trailing the whole year targeted development starts of 2.5 mn sqm.
- Launches World's Largest China-focus Logistics Fund of US\$3 bn
- Maintain Neutral with fair value adjusted to \$2.93

What is the news?

GLP, along with 6 leading global institutions, has announced the launch of US\$3 billion China logistics fund, CLF Fund I, and GLP will retain 56% stake. With this launch and the recent assets sales to GLP J-REIT, the fund management platform business expanded to US\$11.4 bn. GLP 1H14 PATMI and Revenue were US\$349 mn (0% y-y), and US\$277 mn (-19% y-y) due to sales of assets to J-REIT in 4Q13 and weakening of JPY. After adjustment for J-REIT and FX, 1H14 PATAMI and Revenue increased 56% y-y and 15% y-y respectively, driven mainly by revaluation gains of US\$242 mn and the strong China's revenue growth, up 39% y-y.

Fig 1: Results Summary

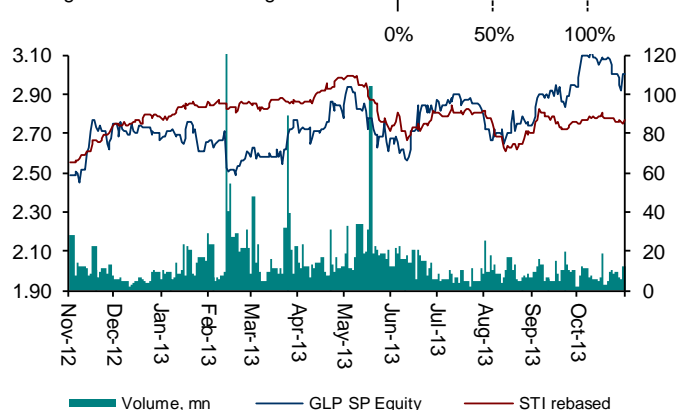
Income Statement				
(Extract)	1H13	2H14	y-y (%)	Comments
(S\$'mn)				
Revenue	343.5	276.9	-19.4%	down due to earlier JP pty monetization & weakening of JPY
EBIT ex reval	260.2	195.3	-24.9%	
PATMI ex reval	211.0	118.3	-43.9%	
PATMI	347.5	349.0	0.4%	Remains Stable

How do we view this?

China revenue in 2Q14 had posted a healthy growth of 39% y-y, driven by strong leasing momentum and improved rent growth of 5% y-y. New and expansion leases reached 575000 sqm, up 60% y-y. The robust growth in China logistics warehouses come from the e-commerce boom and increased demand on 3PLs' service with the continued shift of manufacturing activities to inland cities. The launch of the pilot Free Trade Zone (FTZ) in Shanghai is expected to promote business activities, particularly in industries like trade, logistics and shipping, and therefore drive demand for the logistics warehouses. However, possible further JPY depreciation could impact GLP's net profit in the near term.

GLP Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	2.93	
- Previous Target Price (SGD)	2.8	
Closing Price (SGD)	3.00	
Expected Capital Gains (%)	-2.3%	
Expected Dividend Yield (%)	1.0%	
Expected Total Return (%)	-1.3%	
Raw Beta (Past 2yrs weekly data)	1.07	
Market Cap. (USD mn / SGD mn)	11456 / 14279	
Enterprise Value (USD mn / SGD mn)	13171 / 16454	
3M Average Daily T/O (mn)	9.3	
52 week range (SGD)	2.42 - 3.14	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. GIC PRIVATE LIMITED	36.4
2. LONE PINE CAPITAL LLC	10.0
3. BOSERA ASSET MANAGEMENT	2.1

Key Financial Summary

FYE	FY12	FY13	FY14F	FY15F
Revenue (USD mn)	566	642	583	698
Net Profit, adj. (USD mn)	314	350	247	293
EPS, adj. (USD)	0.07	0.08	0.05	0.06
P/E (X),adj.	35.2	32.0	46.2	38.9
BVPS (USD)	1.69	1.80	1.88	2.01
P/B (X)	1.4	1.3	1.3	1.2
DPS (USD)	0.00	0.02	0.03	0.03
Div. Yield (%)	0.0%	1.0%	1.3%	1.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

RNAV

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Investment Actions?

We still favour GLP for its dominant market position and positive long term growth prospects. We maintain the Neutral rating as we think the share price is fairly-valued now, but revise our TP upwards to \$2.93 to reflect revaluation gains from future development completion in the near term and the expanded fund management platform business.

World Largest China-focus Logistics Fund

GLP, along with 6 leading global institutions, has announced the launch of US\$3 billion China logistics fund, CLF Fund I. The fund will be utilized for new, wholly-owned logistics development projects in China during the three year investment period to capture substantial market share of mounting modern logistics facilities' demand while benefiting from the potential enhanced returns. GLP is the asset manager and will retain 56% stake in the fund. GLP will furnish the fund with land from the developing assets (not more than 25% completed) or land reserves to support 1.8 mn sqm of leasable area (valued at approximately US\$339 mn).

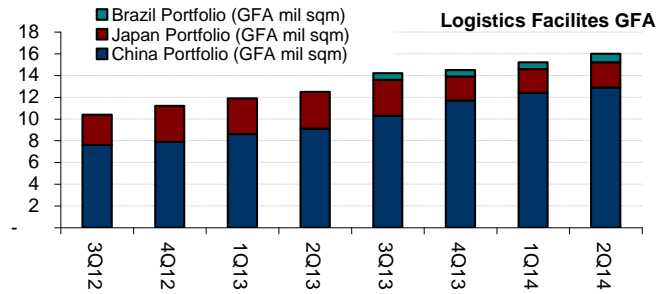
With this launch and the recent assets sales to GLP J-REIT, the fund management platform business expanded to US\$11.4 bn. We believe GLP will continue to attract funding and monetize its performing stabilized properties to augment the AUM of the fund management platform for higher recurring income stream.

China Business Remain Robust

The rise in 2Q14 China revenue of 39% y-y was mainly due to the completion and stabilization of projects and higher contribution from the JV. New development starts were 1.1 mn sqm GFA in China, trailing the whole year target of 2.5 mn sqm. However, GLP remains confident to meet the target in FY2014. Leasing ratio remains at 90%, while average rents improved to RMB 1.10/sqm/day, +5% y-y. New and expansion leases reached 575000 sqm, up 60% y-y. The strong leasing momentum derived from the e-commerce boom and increased demand on 3PLs' service with the continued shift of manufacturing activities to inland cities. China retail sales and industrial value-added growth rate still maintained a double digit growth. The launch of the pilot FTZ in Shanghai is expected to promote business activities and therefore drive demand for the logistics warehouses. GLP expects there will be FTZ launches in more cities in future, thus strengthening the demand in the China Business.

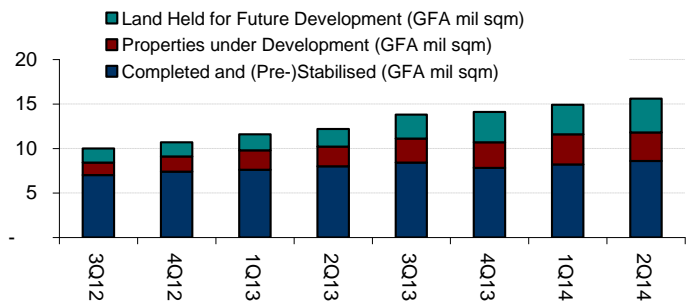
Property Portfolio Metrics

Fig 2: Property Portfolio Profile by Countries – GFA 100% Stake



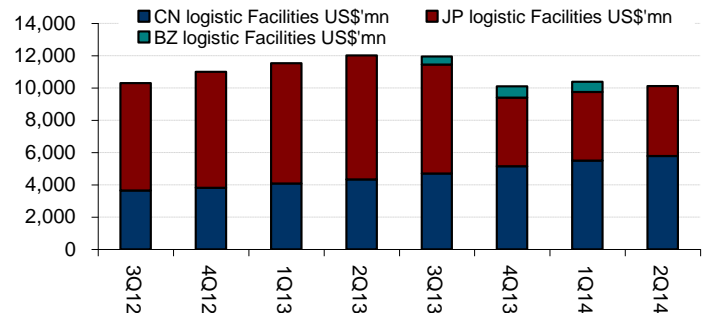
Source: Company Data, PSR

Fig 3: Property Portfolio Profile by Development Status – GFA 100% Stake



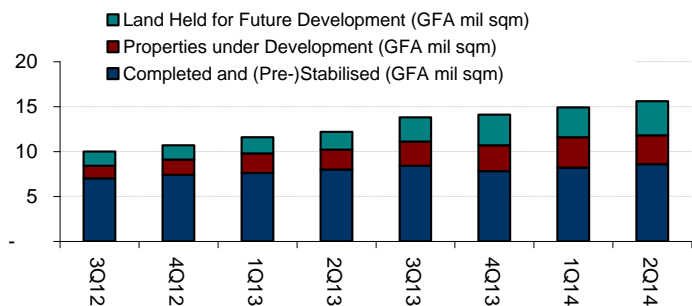
Source: Company Data, PSR

Fig 4: Property Portfolio Profile by Countries – Value Effective Stake



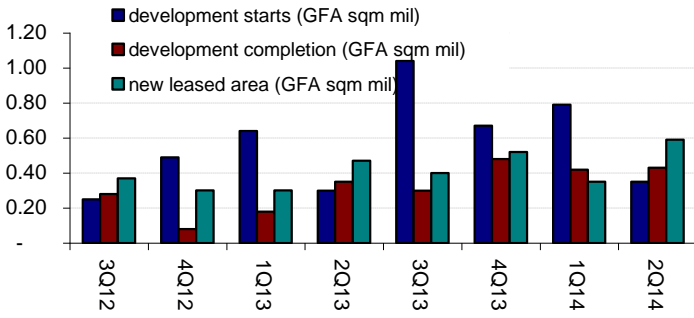
Source: Company Data, PSR

Fig 5: Property Portfolio Profile by Development Status – Value Effective Stake



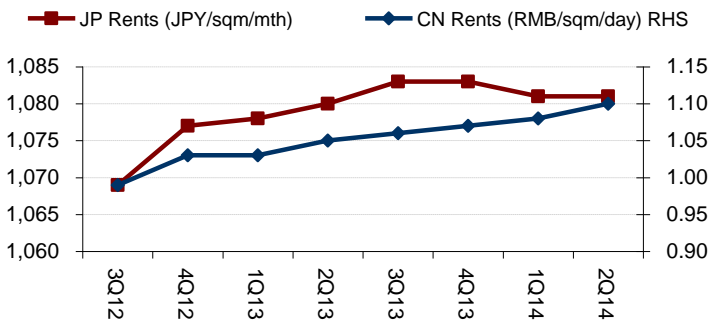
Source: Company Data, PSR

Fig 6: Slower Development Start, Higher Project Completion, and New Leases Improved



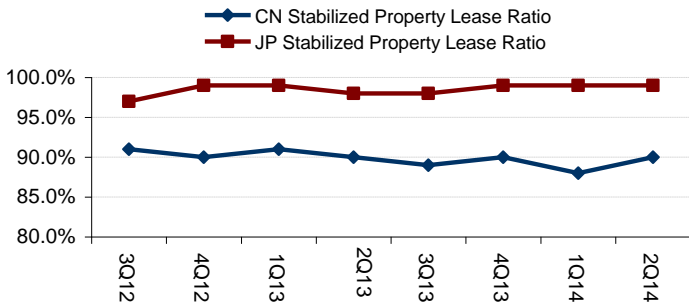
Source: Company Data, PSR

Fig 7: Average Rents of Stabilized Properties



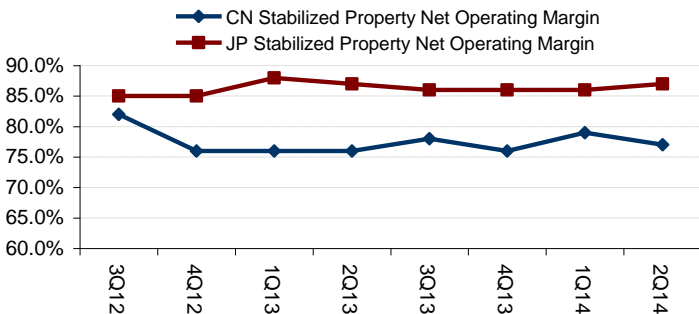
Source: Company Data, PSR

Fig 8: Leasing Ratio of Stabilized Properties



Source: Company Data, PSR

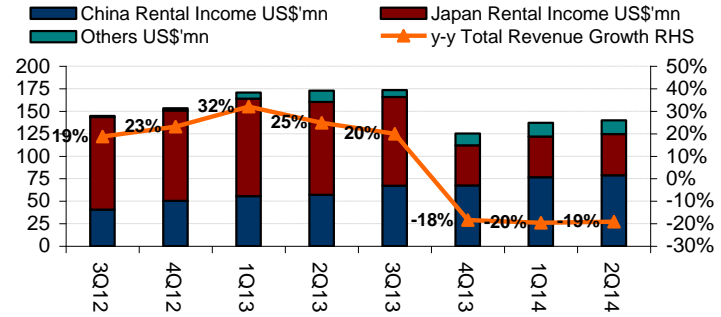
Fig 9: Net Operating Margin of Stabilized Properties



Source: Company Data, PSR

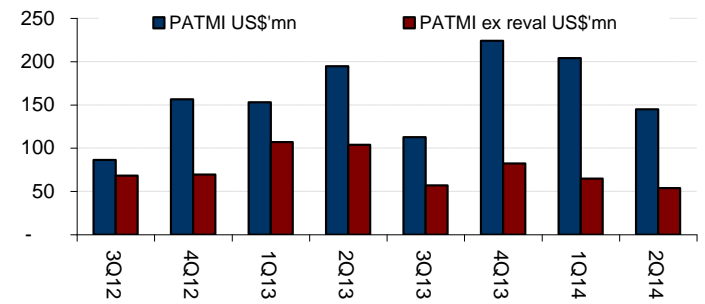
Financials

Fig 10: Revenue fell y-y due to previous Japan assets monetization and the weaker JPY



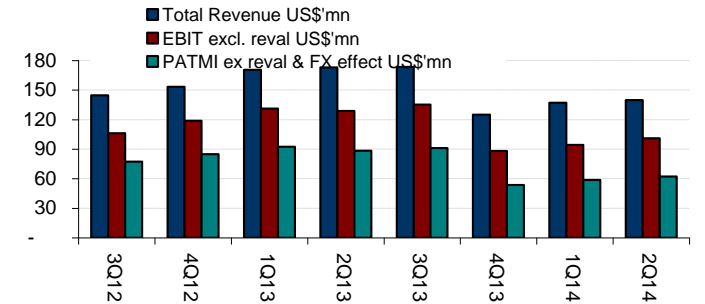
Source: Company Data, PSR

Fig 11: PATMI falls due to higher finance costs and deferred taxes



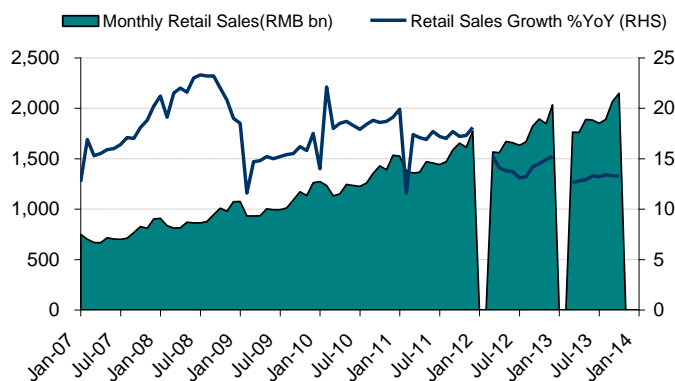
Source: Company Data, PSR

Fig 12: Financials at group level remains stable q-q



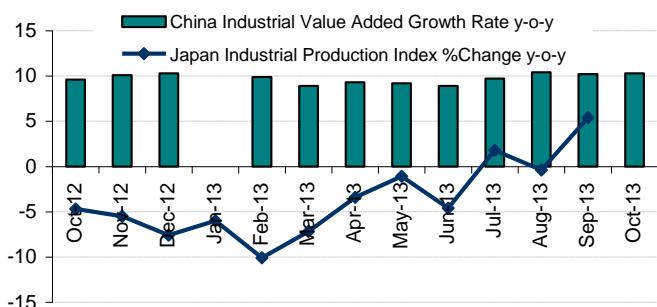
Source: Company Data, PSR

Fig 13: Double digit growth rate in China retail sales



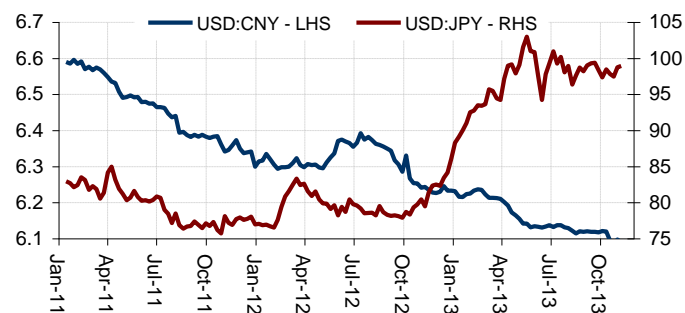
Source: CEIC, PSR

Fig 14: Steady China industrial value-added growth rate and Recovery Japan Industrial Production Index



Source: CEIC, National Bureau of Statistics of China, PSR

Fig 15: Weakening JPY and steady RMB against USD



Source: Bloomberg, PSR

Valuation

Fig 16: GLP RNAV Estimates

RNAV Break Down	RNAV (US\$mil)	Per share (US\$)
China Portfolio	7764 ▲	1.63
Complete Logistic Properties	5277	1.11
Other Facilities	109	0.02
Development Pipelines	2378	0.50
Japan Portfolio	4178 ▲	0.88
Completed Properties	3654	0.77
Development Pipelines	523	0.11
Brazil Portfolio	763 ▲	0.16
Complete Logistic Properties	512	0.11
Development Pipelines	251	0.05
Other Investment	401 ▲	0.08
19.9% stake in SCPSB	87	0.02
J-REIT	314	0.07
Fund Management	513	0.11
GAV	13618 ▲	2.86
Adjusted net debt	-2471	-0.52
RNAV/share (US\$)	11146 ▲	2.34
RNAV/share (S\$)		2.93
Target Price (S\$)		2.93

Source: PSR

FYEMar	FY12	FY13	FY14F	FY15F
Valuation Ratios				
P/E (X), adj.	35.2	32.0	46.2	38.9
P/B (X)	1.4	1.3	1.3	1.2
EV/EBITDA (X)	30.8	26.9	31.9	26.9
Dividend Yield (%)	0.0%	1.0%	1.3%	1.3%
Per share data (USD)				
EPS, reported	0.12	0.14	0.16	0.17
EPS, adj.	0.07	0.08	0.05	0.06
DPS	0.00	0.02	0.03	0.03
BVPS	1.69	1.80	1.88	2.01
Growth & Margins (%)				
Growth				
Revenue	19.4%	13.5%	-9.2%	19.8%
EBITDA adj.	12.8%	14.5%	-15.7%	18.7%
EBIT adj.	12.0%	14.4%	-16.1%	19.0%
Net Income, adj.	12.6%	11.5%	-29.4%	18.7%
Margins				
EBITDA margin	75.7%	76.3%	70.9%	70.2%
EBIT margin	124.0%	141.5%	183.0%	172.4%
Net Profit Margin	98.2%	111.4%	139.0%	126.8%
Key Ratios				
ROE (%)	13.9%	8.5%	8.8%	8.7%
ROA (%)	8.0%	5.1%	5.6%	5.4%
Net Debt/(Cash)	2,559	925	1,781	2,605
Net Gearing (X)	30.8%	10.2%	18.5%	25.1%
Income Statement (USD mn)				
Revenue	566	642	583	698
EBITDA excl.reval	428	490	413	490
EBIT excl. reval	423	484	406	483
EBIT	701	908	1,067	1,204
Net Finance (Expense)/Income	(63)	(67)	(75)	(85)
Other items	n/a	n/a	n/a	n/a
Profit Before Tax	638	842	992	1,119
Taxation	(83)	(126)	(182)	(233)
Profit After Tax	555	715	810	885
Non-controlling Interest	14	31	48	81
Net Income, reported	541	684	762	804
Net Income, adj.	314	350	247	293

Source: PSR

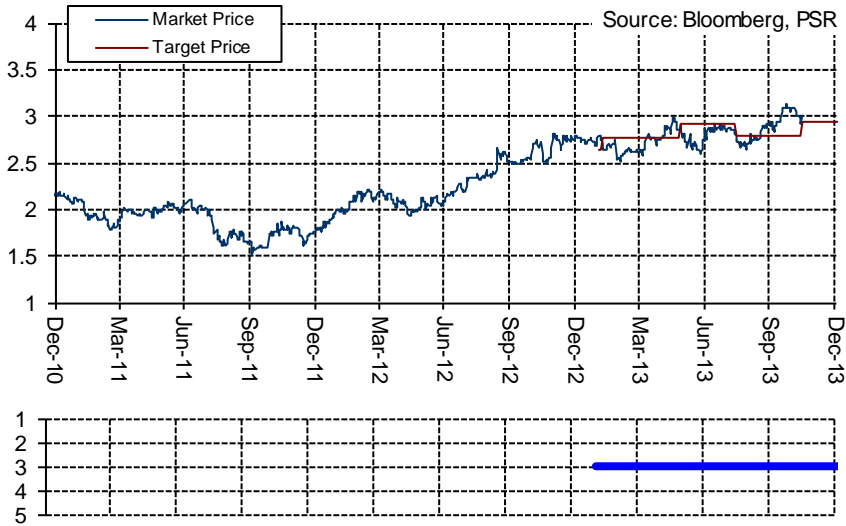
FYE Mar	FY12	FY13	FY14F	FY15F
Balance Sheet (USD mn)				
PPE	8	14	55	113
Intangibles	498	495	491	488
Associates & JVs	791	1,201	1,449	1,800
Investments	10,228	8,722	9,877	11,191
Others	132	498	609	609
Total non-current assets	11,657	10,929	12,482	14,201
Inventories	0	0	0	0
Accounts Receivables	220	304	370	370
Cash	1,616	1,957	1,289	866
Others	87	57	5	5
Total current assets	1,923	2,318	1,664	1,241
Total Assets	13,580	13,248	14,146	15,442
Loans and borrowings	1,006	95	312	735
Accounts Payables	463	529	537	537
Others	16	52	26	26
Total current liabilities	1,485	677	874	1,298
Loans and borrowings	3,169	2,787	2,758	2,735
Others	618	737	865	1,026
Total non-current liabilities	3,787	3,524	3,623	3,761
Non-controlling interest	520	648	704	812
Shareholder Equity	7,788	8,398	8,945	9,571

Cashflow Statements (USD mn)

CFO				
PBT	638	842	992	1,119
Adjustments	(232)	(403)	(629)	(692)
Cash from ops before WC changes	406	439	363	427
WC changes	25	18	(47)	0
Cash generated from ops	432	457	315	427
Taxes paid, net	(14)	(36)	(35)	(73)
Cashflow from ops	418	421	280	354
CFI				
CAPEX	(753)	(999)	(1,023)	(1,132)
disposals of ppe, inv pty & subs	18	2,650	342	400
Net cash flow from JCE	(369)	(500)	(144)	(209)
Interest & dividend received	8	24	8	8
acquisition of other investment	(0)	(206)	(36)	0
Others	(19)	(3)	(54)	0
Cashflow from investments	(1,115)	966	(907)	(933)
CFF				
Proceeds from ordinary share issuance	0	331	0	0
Proceeds from capital securities issuance	580	0	0	0
Loans, net of repayments	272	(778)	220	400
Dividends to minority interests	0	0	0	0
Dividend paid	(2)	(108)	(150)	(145)
Interest paid to debt & capital securities	(98)	(136)	(118)	(126)
Others	(17)	26	17	27
Cashflow from financing	734	(1,005)	(31)	156
Net change in cash	37	381	(658)	(423)
Effects of exchange rates	19	(40)	(11)	0
CCE, end	1,616	1,957	1,289	866

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of

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