

# Global Logistic Properties Limited

Softening demand in China

## SINGAPORE | REAL ESTATE (LOGISTICS) | RESULTS

Global Logistic Properties Limited (GLP) posted its 4Q16 results before market opening on 19 May where we have subsequently tuned in for an analyst conference call.

### Results at a glance

(US\$'mn)	4Q16	4Q15	y-y (%)	Comments
<b>Revenue</b>	<b>199.1</b>	<b>166.8</b>	<b>19%</b>	Driven by completion and stabilisation of development projects in China, and the inclusion of management fees from GLP US Income Partners I and II
EBIT excl. reval	169.7	90.1	88%	Higher contributions from associates and joint ventures
PATMI excl. reval	51.7	65.4	-21%	
<b>PATMI</b>	<b>152.7</b>	<b>104.9</b>	<b>46%</b>	Higher fair value gains in China assets
(US\$'mn)	FY16	FY15	y-y (%)	Comments
<b>Revenue</b>	<b>777.5</b>	<b>708.0</b>	<b>10%</b>	Driven by completion and stabilisation of development projects in China, and the inclusion of management fees from GLP US Income Partners I and II
EBIT excl. reval	597.0	391.3	53%	Higher contributions from associates and joint ventures
PATMI excl. reval	240.9	200.8	20%	
<b>PATMI</b>	<b>719.1</b>	<b>486.2</b>	<b>48%</b>	Higher fair value gains in China assets and value of investment properties of joint ventures in Japan and Brazil

Source: PSR (Singapore) & Company Data

**Operating performance remains strong despite weaker economic landscape in key markets.** Rental rates across GLP's portfolio grew except for China (27.7% of GLP's portfolio by rental income) which maintained at the previous quarter of RMB1.09/sqm/day, however, lease ratios have dipped across the board except for Japan (20.9% by rental income). GLP's portfolio lease ratio as at 31 Mar-16 is down 1 ppts to 92% compared to a year ago.

**Rent pressure and higher vacancies expected in weaker markets in China due to oversupply; Management intends to focus on locations with strong demand and limited land supply.** Current portfolio in China comprises mainly of properties in stronger markets as categorised by stronger lease ratios and absorption rates, where these markets formed 57% of net asset value in China as at 31 Mar-16. In addition, 11% of China's properties comprise properties from weaker markets, and the remaining 32% of properties are located in stable markets. We expect further moderation in China portfolio's lease ratio (4Q16: 87%, 3Q16: 88%) and rental rates, as a significant proportion of leases in China (29%) are due for renewal in 2017 on the backdrop of a softer economic landscape, as well as exposure to certain weaker markets in China. Management expects higher vacancies and rent pressures in the weaker markets in the near term, and will focus on new developments at locations with strong demand and limited land supply.

**Development start targets to be trimmed, as demand for space in key markets are expected to falter; Management to boost portfolio occupancy rates.** Consistent with the softening market conditions in China, management has trimmed development start targets by 17.6% to US\$1.4 bn in FY17 as compared to the actual development starts of US\$1.7 bn in 2016. FY17's development start targets are expected to form 17% of the existing value of completed properties in China. Nonetheless, management remains confident to deliver the benchmark value creation margin of 25% (FY16: 27%). Meanwhile, GLP iterated its focus to boost efforts towards tackling the faltering occupancy rates in its China portfolio.

### Investment Actions

We continue to favour GLP's long term prospects with demand of modern logistic facilities driven by the growing levels of domestic consumption and supply chain reconfigurations in key markets. However, headwinds in the near term such as an oversupply of industrial properties and the softening business landscape in China are adverse factors that are likely to moderate its operating performance in the upcoming quarters.

We have revised our estimates for FY17 to take into account of the aforementioned factors and included a potential cash inflow of c.US\$1.8 bn from the remaining syndication of US Income Partners II, which management stated that the transaction is pending final paperwork and in its final phases from completion. We have adopted a 15% discount to our full year RNAV estimates to take into account of the burgeoning uncertainties in key markets which GLP is exposed to. Consequently, we have downgraded our rating to "Accumulate" with a TP of \$2.28 (previously \$2.43). Nonetheless, GLP's undemanding valuations present opportunities for investors to accumulate on share price weaknesses.

23 May 2016

## ACCUMULATE (Downgrade)

CLOSING PRICE	SGD 1.83
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 2.28
<b>TOTAL RETURN</b>	<b>27.2%</b>

### COMPANY DATA

O/S SHARES (MN) :	4,744
MARKET CAP (USD mn / SGD mn) :	6266 / 8657
52 - WK HI/LO (SGD) :	2.86 / 1.6
3M Average Daily T/O (mn) :	20.64

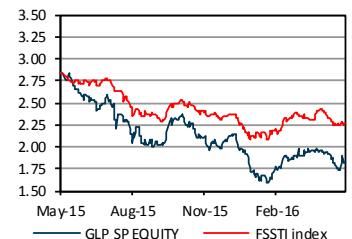
### TOP THREE SHAREHOLDERS (%)

GIC PRIVATE LTD	36.5%
LONE PINE CAPITAL LLC	8.1%
BLACK ROCK	7.0%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(6.9)	6.4	(31.7)
STIRETURN	(4.9)	5.68	(6.72)

### PRICE VS. STI



Source: Bloomberg, PSR

### PRICE PERFORMANCE (%)

USD MN	FY 15	FY 16	FY 17F	FY 18 F
Revenue	708	777	832	874
EBIDTA	403	522	544	593
NPAT (adj.)	200	110	73	83
EPS (adj.)	0.04	0.02	0.02	0.02
PER, x (adj.)	27.5	31.0	56.6	85.4
P/BV, x	0.8	0.7	0.7	0.6
DPS (SGD)	5.50	6.00	6.00	6.00
Div Yield, %	2%	3%	3%	5%
ROE, %	6%	8%	6%	6%

Source: Bloomberg, PSR est.

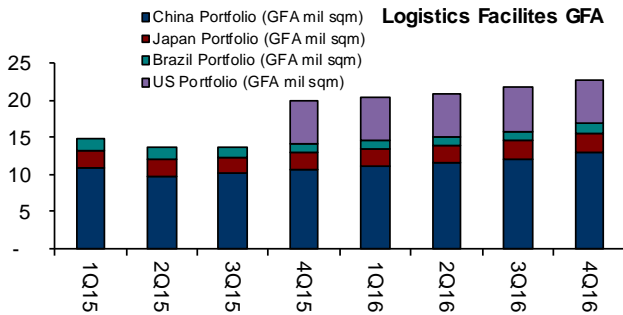
### Valuation Method

RNAV

Peter Ng (+65 6531-1850)  
peterngmc@phillip.com.sg

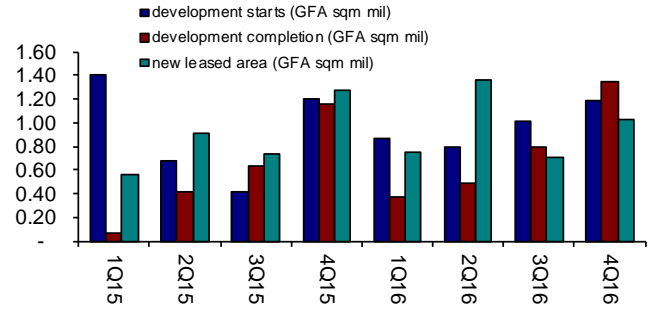
RNAV Break Down	FY2017E	
	RNAV (US\$'mil)	Per share (US\$)
<b>China Portfolio</b>	<b>6017</b>	<b>1.27</b>
Completed Logistic Properties	4586	0.97
Other Facilities	65	0.01
Development Pipelines (Include any Land Bank)	1367	0.29
<b>Japan Portfolio</b>	<b>4118</b>	<b>0.87</b>
Completed Logistic Properties	3740	0.79
Development Pipelines (Include any Land Bank)	378	0.08
<b>Brazil Portfolio</b>	<b>738</b>	<b>0.16</b>
Completed Logistic Properties	629	0.13
Development Pipelines (Include any Land Bank)	109	0.02
<b>US Portfolio</b>	<b>919</b>	<b>0.19</b>
<b>Other Investments</b>	<b>806</b>	<b>0.17</b>
15.5% stake in CMSTD	401	0.08
19.9% stake in SCPSB	50	0.01
15% stake in GLP J-REIT	355	0.07
<b>Fund Management (15X FY17 P/E)</b>	<b>930</b>	<b>0.20</b>
<b>GAV</b>	<b>13528</b>	<b>2.85</b>
FY17F adjusted net debt (including capital securities)	-4286	-0.90
RNAV/share (US\$)	9242	<b>1.95</b>
<b>RNAV/share (S\$)</b>		<b>2.69</b>
<b>Discount to RNAV</b>		<b>15%</b>
<b>Target Price (S\$)</b>		<b>2.28</b>

**Fig 1: Property portfolio profile by countries – GFA effective stake**



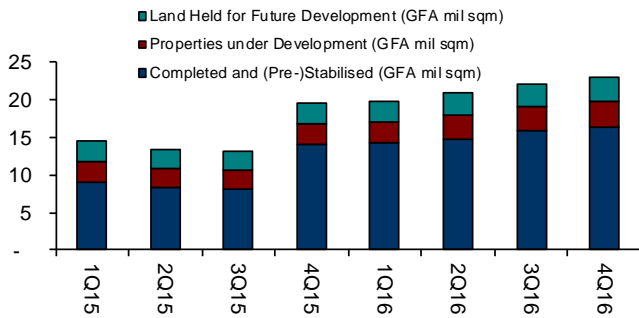
Source: Company Data, PSR est

**Fig 2: Leasing activities remain healthy despite higher completions**



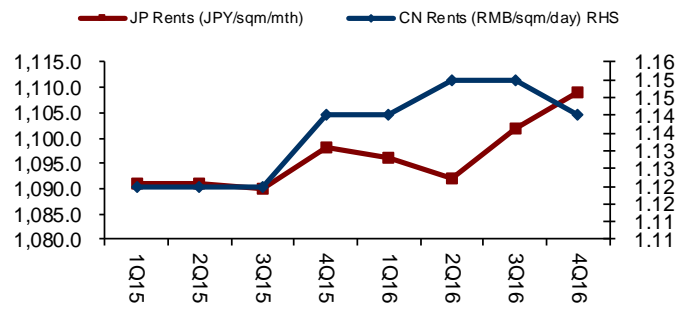
Source: Company Data, PSR est

**Fig 3: Property portfolio profile by development status – GFA effective stake**



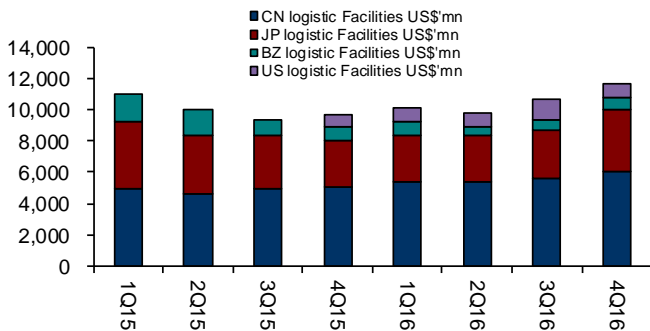
Source: Company Data, PSR est

**Fig 4: Average rents of stabilised properties**



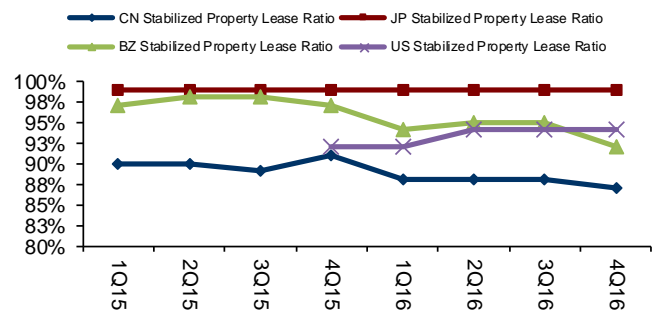
Source: Company Data, PSR est

**Fig 5: Property portfolio profile by countries – Value effective stake**



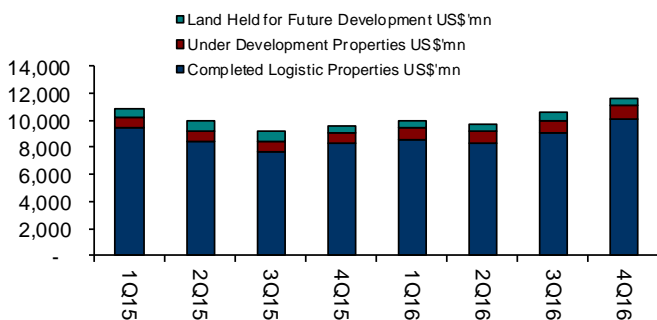
Source: Company Data, PSR

**Fig 6: Leasing ratio of stabilised properties**



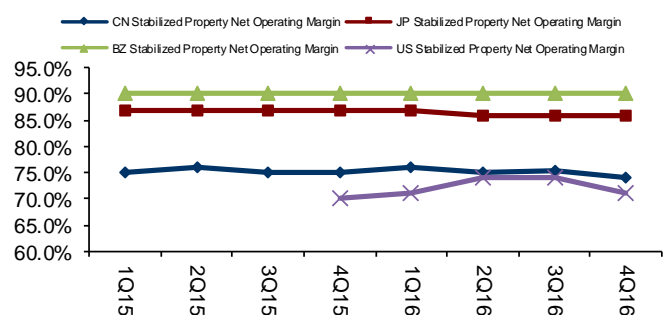
Source: Company Data, PSR

**Fig 7: Property portfolio profile by development status – Value effective stake**



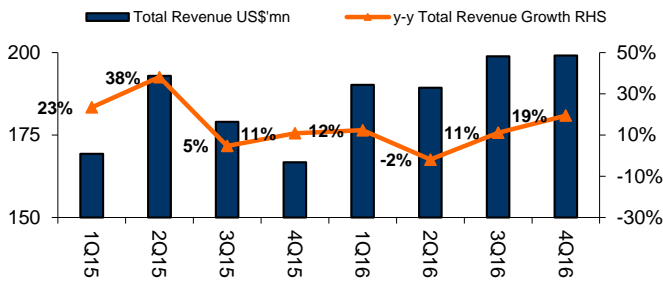
Source: Company Data, PSR est

**Fig 8: Net operating margin of stabilised properties**



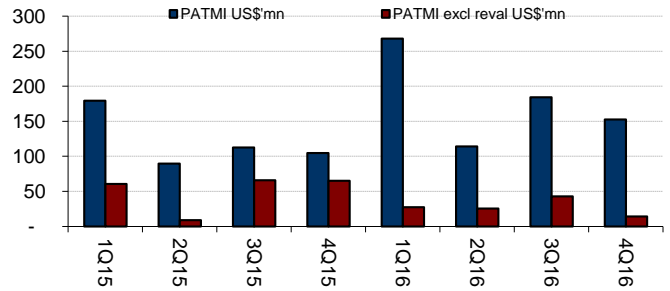
Source: Company Data, PSR est

**Fig 9: Higher revenue growth mainly due to higher contribution from newly acquired US properties (US Income Partners II)**



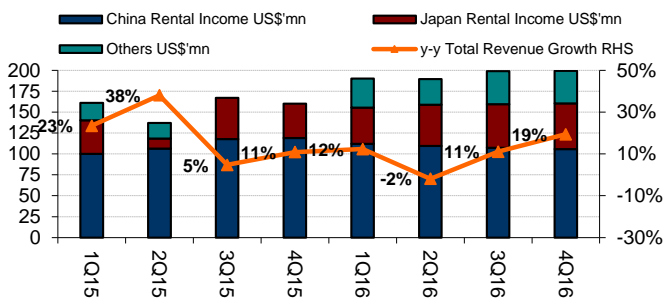
Source: Company Data, PSR est

**Fig 10: Higher PATMI due to higher revaluation gains in China assets**

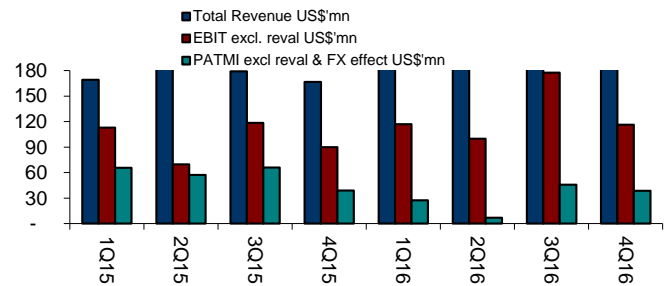


Source: Company Data, PSR est

**Fig 11: Breakdown of rental income and revenue growth qoq**

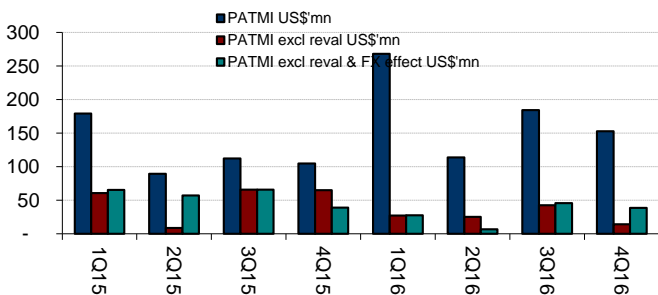


**Fig 12: Total Revenue, EBIT and PAMTI excl reval qoq**



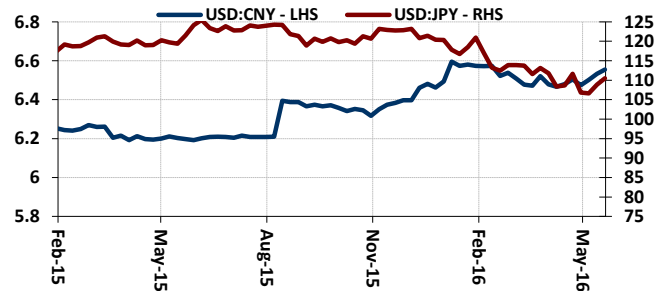
Source: Company Data, PSR est

**Fig 13: PATMI excl reval Declines YoY**



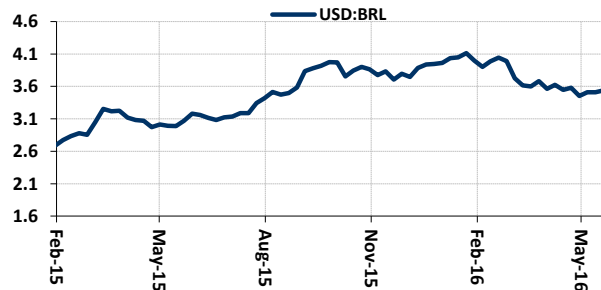
Source: Company Data, PSR est

**Fig 14: Weakening RMB against USD; Strengthening JPY against USD**



Source: Bloomberg, PSR est

**Fig 15: BRL against USD appears to have been stabilised in the past 3 months**



Source: Bloomberg, PSR est

## Financials

### Income Statement

Y/E Mar, USD mn	FY14	FY15	FY16	FY17E	FY18E
Revenue	598	708	777	832	874
EBITDA excl.reval	409	403	522	544	593
Depreciation & Amortisation	8	12	12	12	12
EBIT excl. reval	401	391	511	532	581
EBIT	918	910	1,408	1,229	1,299
Net Finance (Expense)/Inc	(76)	(48)	(101)	(109)	(127)
Profit Before Tax	842	862	1,307	1,120	1,172
Taxation	(132)	(194)	(310)	(259)	(280)
Profit After Tax	710	668	997	860	892
Non-controlling Interest	25	182	314	312	312
Net Income, reported	685	486	683	549	580
Net Income, adj. ex reval	249	200	110	73	83

### Per share data (USD)

Y/E Mar, USD	FY14	FY15	FY16	FY17E	FY18E
EPS, reported	0.14	0.10	0.15	0.11	0.12
EPS, adj.	0.05	0.04	0.02	0.02	0.02
DPS (SGD cents)	4.5	5.5	6.0	6.0	6.0
BVPS	1.84	1.81	1.84	2.00	2.18

### Cash Flows

Y/E Mar, USD mn	FY14	FY15	FY16	FY17E	FY18E
CFO					
Profit before tax	842	862	1,307	1,120	1,172
Adjustments	(459)	(435)	(884)	(670)	(687)
WC changes	(106)	46	(24)	(21)	(22)
Cash generated from ops	277	473	405	429	463
Taxes paid, others	(12)	(28)	(32)	(189)	(203)
Cashflow from ops	264	444	373	240	260
CFI					
CAPEX	(809)	(1,921)	(1,348)	(367)	(392)
Others	533	(271)	1,106	1,925	(41)
Cashflow from investments	(276)	(2,192)	(242)	1,558	(432)
CFF					
Share issuance	0	159	0	0	0
Loans, net of repayments	(177)	687	1,965	0	0
Dividends paid	(150)	(174)	(190)	(280)	(214)
Others	(108)	2,247	(44)	(133)	(152)
Cashflow from financing	(435)	2,918	1,732	(414)	(366)
Net change in cash	(447)	(47)	(230)	1,384	(539)
Effects of exchange rates	(24)	(8)	(27)	0	0
CCE, end	1,486	1,446	1,025	2,409	1,870

Source: Company, Phillip Securities Research (Singapore) Estimates

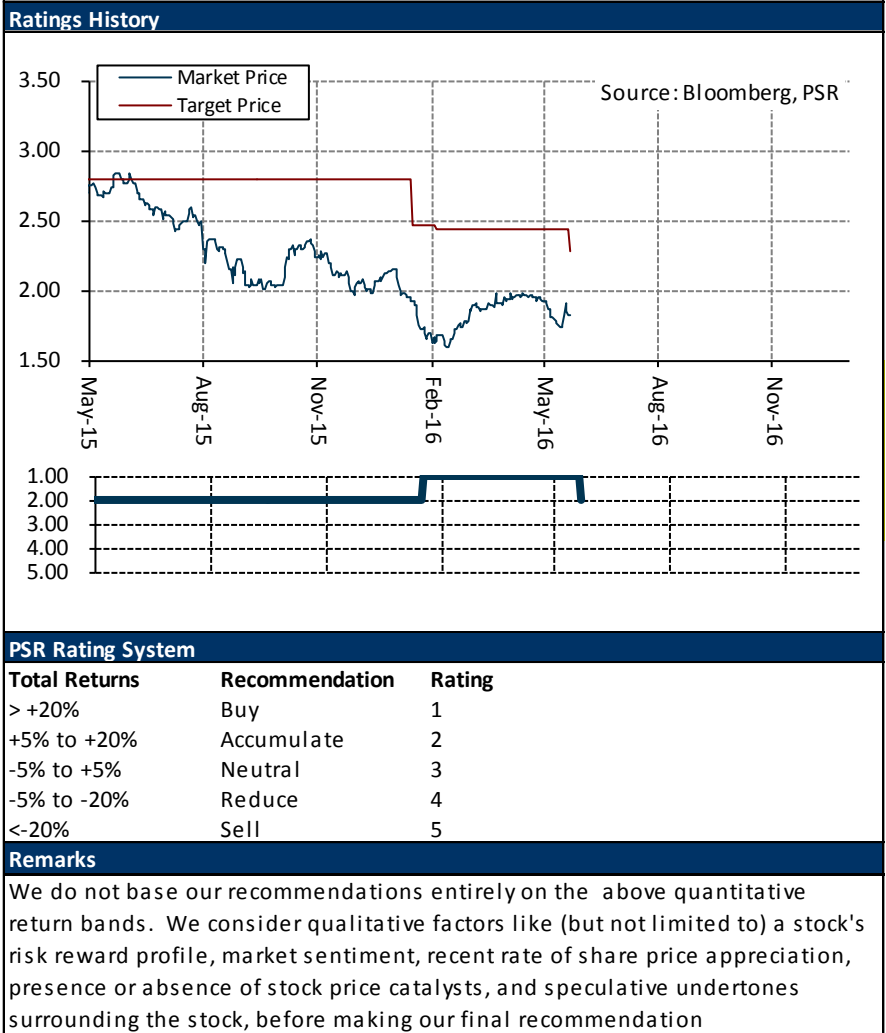
\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

### Balance Sheet

Y/E Mar, USD mn	FY14	FY15	FY16	FY17E	FY18E
<b>ASSETS</b>					
PPE	58	52	53	51	48
Intangibles	491	488	466	465	463
Associates & JVs	1,329	1,544	1,954	2,351	2,624
Long-term investments	9,646	11,332	13,024	13,823	14,672
Others	552	659	1,165	1,165	1,165
<b>Total non-current assets</b>	<b>12,075</b>	<b>14,075</b>	<b>16,662</b>	<b>17,854</b>	<b>18,972</b>
Accounts Receivables	382	475	548	581	616
Cash balance	1,486	1,446	1,025	2,679	2,507
Others	3	1,467	4,895	0	0
<b>Total current assets</b>	<b>1,872</b>	<b>3,387</b>	<b>6,467</b>	<b>3,261</b>	<b>3,123</b>
<b>Total Assets</b>	<b>13,947</b>	<b>17,462</b>	<b>23,129</b>	<b>21,115</b>	<b>22,095</b>
<b>LIABILITIES</b>					
Short term loans	143	371	1,021	1,002	334
Accounts Payables	576	811	1,026	1,039	1,052
Others	21	22	76	76	76
<b>Total current liabilities</b>	<b>740</b>	<b>1,204</b>	<b>2,123</b>	<b>2,117</b>	<b>1,462</b>
Long term loans	2,449	2,476	3,750	3,769	4,437
Others	825	1,019	1,208	1,278	1,355
<b>Total non-current liabilities</b>	<b>3,275</b>	<b>3,496</b>	<b>4,957</b>	<b>5,047</b>	<b>5,791</b>
<b>EQUITY</b>					
Shareholder Equity	8,758	8,780	8,888	9,679	10,570
Non-controlling interest	1,175	3,983	4,272	4,272	4,272
<b>Total Equity</b>	<b>8,308</b>	<b>9,047</b>	<b>9,933</b>	<b>12,762</b>	<b>14,842</b>

### Valuation Ratios

Y/E Mar, USD mn	FY14	FY15	FY16	FY17E	FY18E
P/E (X), adj.	27.5	27.5	31.0	56.6	85.4
P/B (X)	1.1	0.8	0.7	0.7	0.6
Dividend Yield (%)	1.5%	2.5%	3.0%	3.3%	4.5%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	26.3%	18.3%	9.8%	7.0%	5.1%
EBITDA	7.9%	-1.6%	29.7%	4.1%	9.0%
EBIT	5.2%	-0.9%	54.7%	-12.7%	5.7%
Net Income, adj.	-10.8%	-19.5%	-45.1%	-33.8%	14.5%
<b>Margins</b>					
EBITDA margin	68.4%	56.9%	67.2%	65.4%	67.8%
EBIT margin	153.5%	128.6%	181.1%	147.8%	148.6%
Net Profit Margin	118.7%	94.3%	128.2%	103.4%	102.1%
<b>Key Ratios</b>					
ROE (%)	7.8%	5.5%	7.7%	5.9%	5.7%
ROA (%)	4.9%	3.1%	3.4%	2.5%	2.7%
Net Debt/(Cash)	1,106	1,402	3,746	2,091	2,264
Net Gearing (X)	0.1	0.2	0.4	0.2	0.2



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**Contact Information (Singapore Research Team)**
**Research Operations Officer**Mohamed Ghazali - [ghazali@phillip.com.sg](mailto:ghazali@phillip.com.sg)**Consumer | Healthcare**Soh Lin Sin - [sohls@phillip.com.sg](mailto:sohls@phillip.com.sg)**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -  
[richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)**Banking and Finance**Jeremy Teong - [jeremyteongfh@phillip.com.sg](mailto:jeremyteongfh@phillip.com.sg)**Property | Infrastructure**Peter Ng - [peterngmc@phillip.com.sg](mailto:peterngmc@phillip.com.sg)**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - [tandh@phillip.com.sg](mailto:tandh@phillip.com.sg)**US Equity**Ho Kang Wei - [hokw@phillip.com.sg](mailto:hokw@phillip.com.sg)**Macro**Pei Sai Teng - [peist@phillip.com.sg](mailto:peist@phillip.com.sg)**Technical Analysis**Jeremy Ng - [jeremyngch@phillip.com.sg](mailto:jeremyngch@phillip.com.sg)**Oil & Gas | Energy**Chen Guangzhi - [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)


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**Contact Information (Regional Member Companies)**
**SINGAPORE****Phillip Securities Pte Ltd**Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)**JAPAN****Phillip Securities Japan, Ltd.**4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)**UNITED STATES****Phillip Futures Inc**141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)**INDIA****PhillipCapital (India) Private Limited**No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)**CAMBODIA****Phillip Bank Plc**Ground Floor of B-Office Centre,#61-64,  
Norodom Blvd Corner Street 306,Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)**MALAYSIA****Phillip Capital Management Sdn Bhd**B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)**INDONESIA****PT Phillip Securities Indonesia**ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)**FRANCE****King & Shaxson Capital Limited**3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)**AUSTRALIA****Phillip Capital Limited**Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)**TURKEY****PhillipCapital Menkul Degerler**Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)**HONG KONG****Phillip Securities (HK) Ltd**11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)**UNITED KINGDOM****King & Shaxson Capital Limited**6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)**SRI LANKA****Asha Phillip Securities Limited**2nd Floor, Lakshmans Building,  
No. 321, Galle Road,  
Colombo 03, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)**DUBAI****Phillip Futures DMCC**Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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