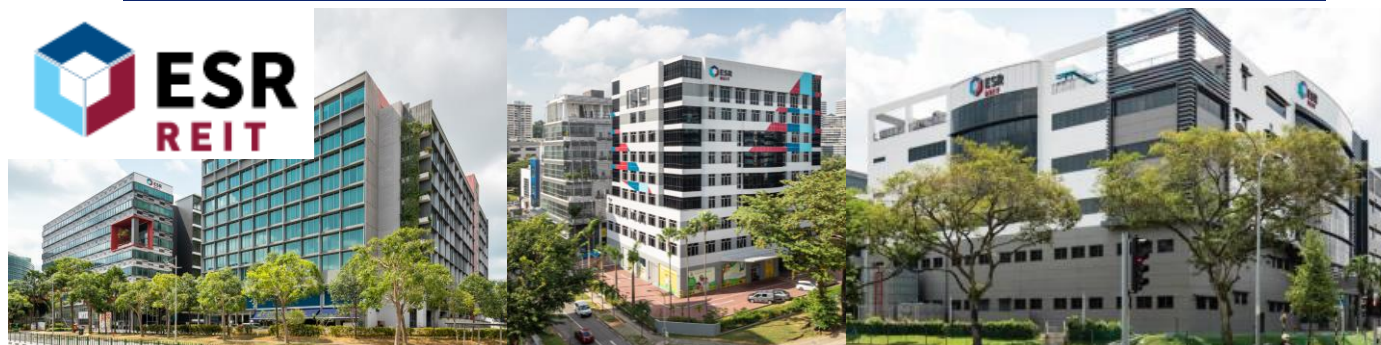


## 10 in 10 – ESR-REIT (SGX Code: J91U)

10 Questions in 10 Minutes with SGX-listed companies



### 10 Questions for ESR-REIT

#### Company Overview

Listed in 2006, ESR-REIT invests in quality income-producing industrial properties. As at 31 Dec 2020, it has a diversified portfolio of 57 properties located across Singapore, with a total gross floor area (GFA) of 15.1 million sq ft and aggregate property value of \$3.1 billion. The properties are in the Business Park, High-Specs Industrial, Logistics/Warehouse and General Industrial sub-segments, located close to major transportation hubs and key industrial zones island-wide.

[Link to StockFacts company page](#)

SGX Code: J91U	BBG: EREIT SP	RIC: ESRR.SI
Market cap on 25 Jan (S\$m)		1,466.3
Price on 25 Jan (S\$)		0.410
52 wk high/low (S\$)		0.560 – 0.240
12m ADTV (S\$)		5,328,426
Shares Outstanding (m)		3,576.4
Float		62.7%
P/E (LTM)		N.M.
P/B (LTM)		1.0
Dividend Yield		6.9%

Source: Bloomberg (25 Jan 2021)

#### 1. What is ESR-REIT's strategy for FY21?

- Our focus is to enhance the operational and income stability of ESR-REIT's portfolio by positioning it to remain relevant to industrialists' evolving space needs. We will reduce uncertainties in the REIT's capital structure via early refinancing of all expiring debt due in FY21 and achieve an optimal balance of hedging ratio and debt tenor to maintain financial flexibility.
- We will continue to focus on organic growth such as asset enhancement initiatives (AEI) to remain relevant in the industrial sector which includes – i) \$60 to S\$70 million of AEIs to be carried out over 12 to 18 months and (ii) development of a multi-tenanted high-specs building at 7000 Ang Mo Kio Avenue 5 suitable for advanced manufacturing, info-comm and data centre tenants. In line with our portfolio reconstitution strategy, we intend to divest up to S\$50 million of non-core assets to pare down debt and/or fund AEIs and developments.
- Acquisitions are an integral part of our growth strategy and we intend to execute single-asset and portfolio income-producing acquisitions and/or developments, locally and overseas, in markets where our Sponsor, ESR Group, has an established operation platform.

#### 2. Does ESR-REIT plan to use inorganic means (i.e. asset acquisitions) to grow its portfolio? What are the key criteria for this strategy?

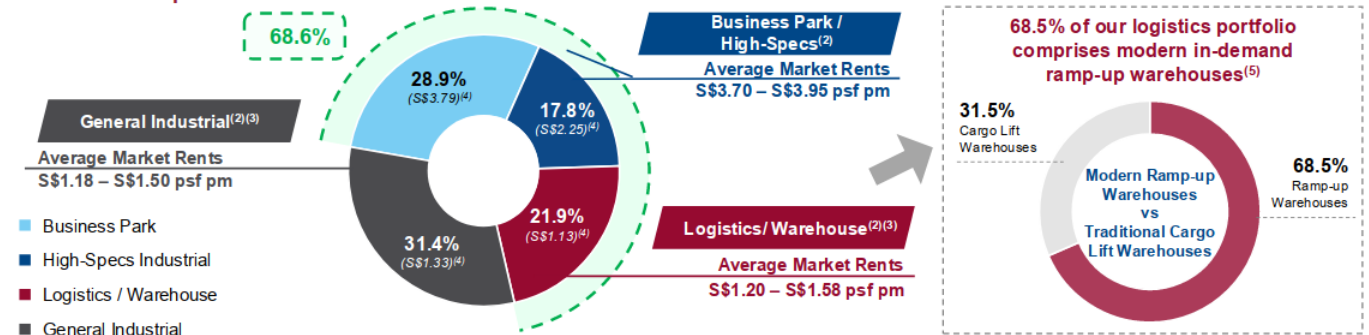
- We continue to explore and pursue suitable acquisition targets and development opportunities locally and overseas, leveraging on the support of our Sponsor, ESR Group. ESR Group has an established platform, footprint and network across six countries in Asia Pacific and US\$26.5 billion pipeline of assets.
- Apart from improving returns for our unitholders, we are also cognisant of the structural challenges posed by short land leases inherent in Singapore industrial properties. We have been evaluating acquisitions of freehold and/or longer land lease properties overseas to increase our portfolio's weighted average land lease.

### 3. How has COVID-19 affected your operating conditions? What measures have you put in place to mitigate the impact?

- Over half of our tenants are essential service providers and were operational during circuit breaker. Since Singapore entered Phase 2 of reopening, over 75% of our tenants have also restarted operations. Despite the challenges, we have collected around 97% of billings for 4Q2020. We have taken measures to ensure that ESR-REIT has adequate cash flow to meet liabilities and pay out distributions, as well as close monitoring of the COVID-19 situation and conduct regular dialogues with our tenants.
- We do not expect to provide much rental relief in 2021, barring unforeseen circumstances. 0.197 S\$ cents distribution per unit (DPU) which was retained in 1Q2020 for cashflow purposes was paid out in 3Q2020 (0.098 S\$ cents) and the remaining will be fully distributed in 4Q2020 (0.099 S\$ cents).
- Our diversification across industrial sub-asset classes and a high proportion of Multi-Tenant Building vs. Single-Tenant Building, has mitigated our portfolio concentration risk. We also reiterate the importance of having a well spread debt maturity profile. ESR-REIT has adequate operating cash flows and committed undrawn credit facilities to enable us to meet our financial obligations as and when they fall due.

#### Increased Exposure to Future-Ready and Resilient Sectors: Business Park, High-Specs and Logistics

Well-diversified portfolio across sub-sectors with over 343 tenants



### 4. How have occupancy rates, rental reversions and DPU changed (or not) as a result of COVID-19?

- Occupancy rates are at 91.0% (at 31 Dec 2020), above JTC's industrial average. Total lease renewals and new leases secured in FY20 is 3.87 million sq ft (40.9% higher YoY). Despite COVID-19, we have secured 1.65 million sq ft in new leases.
- Rental reversions have remained relatively flat at -0.6% as at 31 December 2020. With continued business uncertainties and projected industrial space supply in 2021 and 2022, we expect industrial market rents and prices to remain soft in the coming quarters.
- Core DPU for 4Q20 increased 5.9% QoQ to 0.741 S\$ cents, bringing the FY20 core DPU to 2.800 S\$ cents, 20.7% lower from FY19 due to provision of rental rebates, lower rentals and downsizing arising from the pandemic, and conversions of five single-tenanted buildings to multi-tenanted. We intend to maintain a 100% distribution pay out going forward, subject to further developments.

### 5. ESR-REIT is a pure-play S-REIT, are there any plans to diversify into other markets?

- We will evaluate and pursue value-adding acquisition opportunities to enhance our portfolio – in Singapore and overseas. Singapore's small market size and shorter and lease tenor of industrial properties necessitate the acquisition of overseas properties (with longer land leases and/or freehold basis) to grow our portfolio.
- ESR-REIT has "first look" on over US\$26.5 billion of ESR Group's portfolio of assets in an increasingly scarce environment for quality logistics assets. We will continue to evaluate opportunities that are in line with the REIT's strategies and in the best interests of our unitholders. Any expansion overseas will be done in a scalable and disciplined manner.

## 6. What role does the Sponsor, ESR Group, play in boosting your growth strategy?

- We are ESR Group's flagship REIT in Singapore and bear its name. Our Sponsor has provided strong capital support and financial commitment in equity fundraisings and the acquisition of REIT managers to facilitate the merger of ESR-REIT with Viva Industrial Trust (VIT).
- Since its entry as our Sponsor in 2017, ESR Group has transformed ESR-REIT by doubling our GFA and rejuvenating our properties to focus on higher value-added segments of the industrial value chain, such as high-specs industrial properties.
- ESR Group's AUM of US\$26.5 million and footprint across Asia Pacific also provides a pipeline of quality income-producing assets and development opportunities for ESR-REIT.

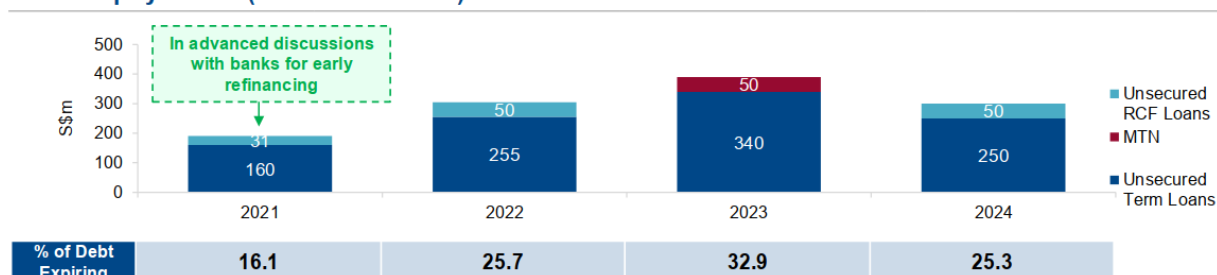
## 7. What is ESR-REIT's outlook for the industry and how is ESR-REIT positioned?

- Industrial rents are expected to remain muted given the pandemic, weak trade conditions and potential oversupply due to construction delays as a result of COVID-19. Despite signs of gradual stabilisation, we believe the outlook to remain uncertain with pressures from the staggered openings of international borders and resurgence of cases in some countries having impeded global trade and production volumes.
- However, we have seen an uptick in demand and prospects coming from pharmaceutical, advanced manufacturing, precision engineering and third-party logistics providers, e-commerce companies and from businesses looking to right-size their current operations.
- We continue to refresh our portfolio including undertaking AEs and/or redevelopments and divesting non-core assets to ensure that our portfolio remains relevant and future-ready.

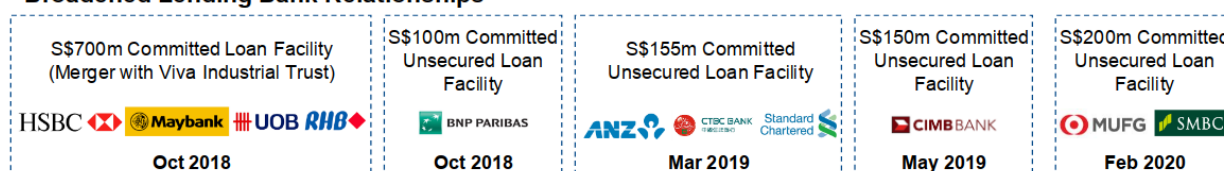
## 8. ESR-REIT's Debt-to-Asset ratio was 41.6% as of 31 December 2020, higher than the average of 36% across S-REITs. Do you have any plans to lower this ratio?

- We are comfortable with our gearing of 41.6% which is lower than the regulatory gearing limit of 50%. As such, we have a debt headroom of S\$507.7 million. Our portfolio remains 100% unencumbered which provides financial flexibility to lever up with various debt sources. Should we undertake any equity fund raising exercise, there will be a clear use of proceeds in line with our strategies and we may consider reducing our gearing if market conditions permit.
- We have established a track record of reducing our cost of debt while extending debt tenors on an unsecured basis. Even during COVID-19, we have managed to refinance our loans at lower margins and broadened our network of lending banks from two lending banks to 11 presently – a strong validation of our capital management strategy. Going forward, we expect our loan costs to reduce.

### Debt Expiry Profile (as at 31 Dec 2020)



### Broadened Lending Bank Relationships



## 9. Sustainability and Environmental, Social and Governance (ESG) have increasingly been a key focus, how is ESR-REIT committed to sustainability?

- We have in 2019 reviewed our material factors and set new targets which are more relevant to our enlarged size post the completion of merger with VIT in 4Q2018. We have also stepped-up efforts in the collection and monitoring of ESG data so as to identify and implement initiatives for improvements where possible. The REIT will be making its first GRESB submission in 2021.
- ESR-REIT aims to reduce its environmental footprint by efficiently managing resources such as energy and water. One such initiative is our solar harvesting programme. We have 9 assets with solar panels installed on their rooftops. Solar energy harvested is used by tenants and supplied to other buildings.
- We also have a focus on children. One such example is the setting up of a tuition centre in one of our assets, ESR Bizpark@Chai Chee with the Kembangan Chai Chee Youth Executive Committee to create a conducive environment for underprivileged youths to study after school. Three units at ESR Bizpark@Chai Chee were fitted out with furniture and certified tutors were engaged for children aged 9-12 years to have thrice weekly tuition specially designed to help them build confidence and pass their Primary School Leaving Examination.

## 10. What is ESR-REIT's value proposition to shareholders and potential investors?

- We are a sizable and well-diversified REIT with strong banking support, low cost of debt, a balanced debt expiry profile and a committed developer-sponsor. We believe these factors will position us for entry into key indices which could result in positive re-rating in the long term.
- We are evaluating and looking to speed up AEI and redevelopment opportunities within our portfolio to ensure that our assets are future-ready to tap onto the market post COVID-19 recovery.
- ESR-REIT continues to evaluate opportunities in Singapore and overseas for acquisitions which add value for our unitholders. ESR-REIT currently, has the size and position to venture overseas especially with our Sponsor's asset pipeline and Pan-Asian operational footprint. This access is important given the increasingly scarce environment for such quality assets.

Source: Company data

## 10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit [sgx.com/research](https://sgx.com/research).

For company information, visit <https://www.esr-reit.com.sg/home.html>  
Click [here](#) for 4Q2020 Earnings Presentation

## Notes

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