

ACTION

Buy**Global Logistic Properties (GLPL.SI)****Return Potential: 15%**

Equity Research

Localizing operations sees gear shift in China growth outlook; Buy**Source of opportunity**

GLP entered into an agreement with a consortium of leading Chinese domestic institutions to restructure GLP's China operations into a China Holdco with GLP holding a 66% stake. The Strategic Partners (Consortium & Employee Team) will hold a 34% stake and invest US\$2.35bn in the China Holdco (China Holdco shares to be sold at 1% premium to NAV) and US\$163mn in GLP via a placement. We believe this agreement would help secure long-term access to land, new customers and capital in China, potentially **accelerating dev. starts growth in China to 25-40% p.a. vs. current guidance of 20-25%, and we reiterate our Buy rating.**

Catalyst

Localizing China operations: The consortium will replace GIC as the largest investor in GLP's China Ops, or 'GLP China' as it calls itself locally. We believe this would position GLP to secure land from local governments and SOEs, the latter of which are increasingly active in the leasing market.

Long-term access to land: GLP China and its strategic partners look to tap into SOEs' underutilized land holdings, addressing GLP's current land bank limitations and rising competition for land. Mgmt believes GLP will be in a better negotiating position vs. peers to acquire land and will be able to use its broader network to build customer relationships.

Possible gear shift in growth from accelerated China dev't starts:

While the investment of the partners values China ops at 1.01X P/B while GLP trades on 1.27X last reported P/B, we focus on potential for accelerated growth in China development starts. Guidance now calls for +40% yoy in FY15 (Mar-end) and +25-30% p.a. in FY16/17 vs. prev. 20-25% p.a.

Valuation

We maintain our 12m NAV-based TP at S\$3.30. This transaction is subject to regulatory and GLP shareholder approval at an EGM.

Key risks

Slowdown in retail sales growth and leasing demand.

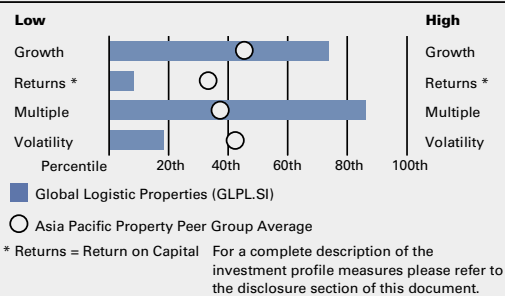
INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

Coverage View: Neutral

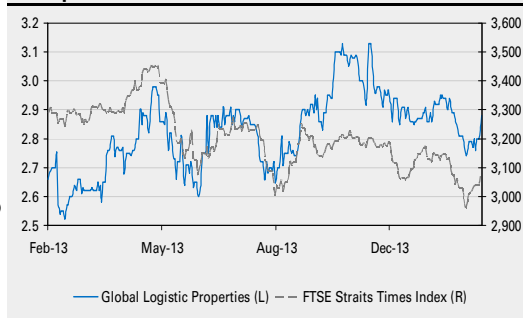
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Investment Profile

| Key data | Current |
|-------------------------------|---------------------|
| Price (S\$) | 2.88 |
| 12 month price target (S\$) | 3.30 |
| Market cap (S\$ mn / US\$ mn) | 13,707.1 / 10,874.3 |
| Foreign ownership (%) | -- |

| | 3/13 | 3/14E | 3/15E | 3/16E |
|-------------------------|------|--------|-------|-------|
| EPS (\$) | 0.11 | 0.10 | 0.10 | 0.12 |
| EPS growth (%) | 60.8 | (10.3) | 4.8 | 16.7 |
| EPS (diluted) (\$) | 0.11 | 0.10 | 0.10 | 0.12 |
| EPS (basic pre-ex) (\$) | 0.15 | 0.10 | 0.10 | 0.12 |
| P/E (X) | 17.8 | 23.2 | 22.1 | 19.0 |
| P/B (X) | 1.1 | 1.2 | 1.2 | 1.1 |
| EV/EBITDA (X) | 24.8 | 37.0 | 34.7 | 31.8 |
| Dividend yield (%) | 1.7 | 1.4 | 1.4 | 1.4 |
| ROE (%) | 6.6 | 5.5 | 5.5 | 6.2 |

Price performance chart

| Share price performance (%) | 3 month | 6 month | 12 month |
|----------------------------------|---------|---------|----------|
| Absolute | (6.2) | 5.9 | 8.3 |
| Rel. to FTSE Straits Times Index | (2.2) | 10.3 | 15.8 |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/18/2014 close.

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Global Logistic Properties: Summary Financials

| Profit model (\$ mn) | 3/13 | 3/14E | 3/15E | 3/16E | Balance sheet (\$ mn) | 3/13 | 3/14E | 3/15E | 3/16E |
|---|------------------|------------------|------------------|------------------|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total revenue | 642.1 | 592.9 | 697.6 | 827.8 | Cash & equivalents | 1,957.5 | 1,571.5 | 1,193.5 | 839.4 |
| Cost of goods sold | 0.0 | 0.0 | 0.0 | 0.0 | Accounts receivable | 304.1 | 280.8 | 330.4 | 392.0 |
| SG&A | (104.8) | (135.4) | (163.9) | (196.1) | Inventory | 0.0 | 0.0 | 0.0 | 0.0 |
| R&D | -- | -- | -- | -- | Other current assets | 56.9 | 56.9 | 56.9 | 56.9 |
| Other operating profit/(expense) | (112.5) | (101.1) | (118.9) | (140.7) | Total current assets | 2,318.4 | 1,909.2 | 1,580.8 | 1,288.3 |
| EBITDA | 431.3 | 365.1 | 423.4 | 499.5 | Net PP&E | 8,736.0 | 9,780.4 | 11,132.1 | 12,708.0 |
| Depreciation & amortization | (6.5) | (8.7) | (8.6) | (8.6) | Net intangibles | 494.7 | 491.2 | 487.8 | 484.3 |
| EBIT | 424.8 | 356.4 | 414.8 | 491.0 | Total investments | 1,567.1 | 1,897.1 | 2,101.6 | 2,193.6 |
| Interest income | 10.7 | 12.9 | 10.4 | 7.9 | Other long-term assets | 131.4 | 131.4 | 131.4 | 131.4 |
| Interest expense | (77.4) | (96.5) | (118.3) | (142.3) | Total assets | 13,247.5 | 14,209.3 | 15,433.6 | 16,805.6 |
| Income/(loss) from uncons. subs. | 0.0 | 0.0 | 0.0 | 0.0 | Accounts payable | 529.2 | 488.7 | 575.0 | 682.3 |
| Others | 483.6 | 310.4 | 322.0 | 372.5 | Short-term loans | 95.4 | 95.4 | 95.4 | 95.4 |
| Pretax profits | 841.7 | 583.2 | 628.8 | 729.1 | Other current liabilities | 52.1 | 52.1 | 52.1 | 52.1 |
| Income tax | (126.4) | (97.9) | (115.4) | (127.2) | Total current liabilities | 676.8 | 636.3 | 722.6 | 829.8 |
| Minorities | (31.0) | (16.9) | (22.6) | (29.2) | Long-term debt | 2,786.7 | 3,458.3 | 4,237.6 | 5,055.2 |
| Net income pre-preferred dividends | 684.3 | 468.4 | 490.9 | 572.7 | Other long-term liabilities | 737.4 | 737.4 | 737.4 | 737.4 |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 | Total long-term liabilities | 3,524.1 | 4,195.7 | 4,974.9 | 5,792.5 |
| Net income (pre-exceptationals) | 684.3 | 468.4 | 490.9 | 572.7 | Total liabilities | 4,200.9 | 4,832.0 | 5,697.5 | 6,622.4 |
| Post-tax exceptionals | (173.4) | 0.0 | 0.0 | 0.0 | Preferred shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income | 510.9 | 468.4 | 490.9 | 572.7 | Total common equity | 8,398.3 | 8,712.0 | 9,048.1 | 9,466.1 |
| EPS (basic, pre-except) (\$) | 0.15 | 0.10 | 0.10 | 0.12 | Minority interest | 648.4 | 665.3 | 687.9 | 717.1 |
| EPS (basic, post-except) (\$) | 0.11 | 0.10 | 0.10 | 0.12 | Total liabilities & equity | 13,247.5 | 14,209.3 | 15,433.6 | 16,805.6 |
| EPS (diluted, post-except) (\$) | 0.11 | 0.10 | 0.10 | 0.12 | BVPS (\$) | 1.77 | 1.83 | 1.90 | 1.99 |
| DPS (\$) | 0.03 | 0.03 | 0.03 | 0.03 | RNAV (\$ mn) | 12,014.5 | 12,782.0 | -- | -- |
| Dividend payout ratio (%) | 29.6 | 33.0 | 31.5 | 27.0 | RNAVPS (\$) | 2.53 | 2.69 | -- | -- |
| Free cash flow yield (%) | 4.2 | 1.9 | 2.6 | 3.0 | | | | | |
| Growth & margins (%) | 3/13 | 3/14E | 3/15E | 3/16E | Ratios | 3/13 | 3/14E | 3/15E | 3/16E |
| Sales growth | 13.5 | (7.7) | 17.7 | 18.7 | ROE (%) | 6.6 | 5.5 | 5.5 | 6.2 |
| EBITDA growth | 7.5 | (15.4) | 16.0 | 18.0 | ROA (%) | 3.8 | 3.4 | 3.3 | 3.6 |
| EBIT growth | 7.4 | (16.1) | 16.4 | 18.4 | ROACE (%) | 7.4 | 5.2 | 5.0 | 5.2 |
| Net income growth | 62.8 | (8.3) | 4.8 | 16.7 | Inventory days | NM | NM | NM | NM |
| EPS growth | 60.8 | (10.3) | 4.8 | 16.7 | Receivables days | 148.9 | 180.0 | 159.9 | 159.3 |
| Gross margin | 100.0 | 100.0 | 100.0 | 100.0 | Payable days | NM | NM | NM | NM |
| EBITDA margin | 67.2 | 61.6 | 60.7 | 60.3 | Net debt/equity (%) | 10.2 | 21.1 | 32.2 | 42.3 |
| EBIT margin | 66.2 | 60.1 | 59.5 | 59.3 | Interest cover - EBIT (X) | 6.4 | 4.3 | 3.8 | 3.7 |
| Cash flow statement (\$ mn) | 3/13 | 3/14E | 3/15E | 3/16E | Valuation | 3/13 | 3/14E | 3/15E | 3/16E |
| Net income pre-preferred dividends | 684.3 | 468.4 | 490.9 | 572.7 | P/E basic (X) | 17.8 | 23.2 | 22.1 | 19.0 |
| D&A add-back | 6.5 | 8.7 | 8.6 | 8.6 | P/B (X) | 1.1 | 1.2 | 1.2 | 1.1 |
| Minorities interests add-back | 31.0 | 16.9 | 22.6 | 29.2 | EV/EBITDA (X) | 24.8 | 37.0 | 34.7 | 31.8 |
| Net (inc)/dec working capital | 9.4 | (17.2) | 36.7 | 45.6 | Dividend yield (%) | 1.7 | 1.4 | 1.4 | 1.4 |
| Other operating cash flow | (320.0) | (255.3) | (257.6) | (305.5) | | | | | |
| Cash flow from operations | 411.1 | 221.6 | 301.2 | 350.6 | Underlying valuation | 3/13 | 3/14E | 3/15E | 3/16E |
| Capital expenditures | (6.1) | (5.0) | (5.0) | (5.0) | Underlying profit (\$ mn) | 349.9 | 254.2 | 294.7 | 340.9 |
| Acquisitions | 0.0 | (830.4) | (1,155.7) | (1,344.2) | Underlying EPS (\$) | 0.07 | 0.05 | 0.06 | 0.07 |
| Divestitures | 1,681.1 | 0.0 | 0.0 | 0.0 | Underlying ROE (%) | 4.5 | 3.0 | 3.3 | 3.7 |
| Others | (699.5) | (289.0) | (143.0) | (18.4) | Underlying ROA (%) | 2.6 | 1.9 | 2.0 | 2.1 |
| Cash flow from investments | 975.6 | (1,124.4) | (1,303.7) | (1,367.7) | Underlying ROACE (%) | 4.2 | 3.2 | 3.3 | 3.5 |
| Dividends paid (common & pref) | (107.9) | (154.7) | (154.7) | (154.7) | Underlying P/E (X) | 26.1 | 42.8 | 36.9 | 31.9 |
| Inc/(dec) in debt | (382.4) | 671.6 | 779.2 | 817.6 | Underlying dividend payout (%) | 43.4 | 60.9 | 52.5 | 45.4 |
| Common stock issuance (repurchase) | 330.5 | 0.0 | 0.0 | 0.0 | Underlying EPS growth (%) | 10.0 | (28.8) | 15.9 | 15.7 |
| Other financing cash flows | (885.5) | 0.0 | 0.0 | 0.0 | | | | | |
| Cash flow from financing | (1,045.4) | 516.9 | 624.5 | 662.9 | | | | | |
| Total cash flow | 341.3 | (385.9) | (378.0) | (354.2) | | | | | |

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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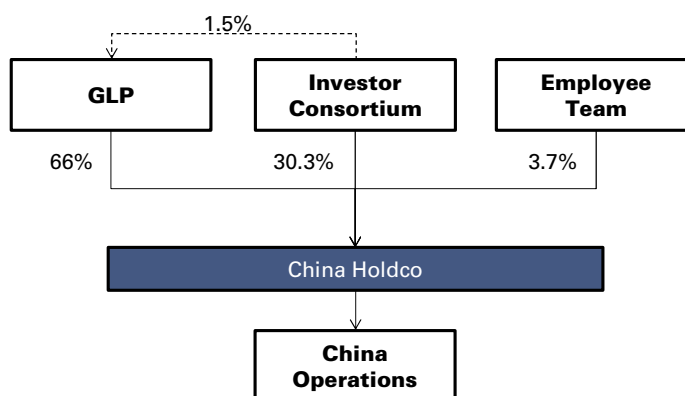
The shareholding structure of the new China Holdco is planned as follows:

- **GLP (66% stake):** To retain the majority of growth for shareholders.
- **Investor Consortium (30.3% stake):** Consists of Bank of China Group Investment Limited, a large Chinese insurance company, HOPU Logistics Investment Management Company Limited and other state-owned companies and institutional investors.
- **Employee Team (3.7% stake):** Representing certain existing and future employees of GLP.

This transaction is subject to regulatory and GLP shareholder approval via an extraordinary general meeting.

Exhibit 1: GLP will hold a 66% stake in the new China Holdco

New China Holdco structure



Source: Company data.

The transaction of US\$2.5bn will be split into two tranches:

- **1st tranche of US\$1.6bn;** completion expected over the next few months
 - US\$1.48bn of new shares in China Holdco
 - US\$163mn of new shares in GLP, representing 1.5% of GLP's share outstanding, at a price of S\$2.755/sh, a 3% discount to 30 day VWAP.
- **2nd tranche of up to US\$875mn** in China Holdco; completion expected within 12months

GLP intends to use the majority of the proceeds to strengthen and further develop its network in China, with GLP estimating the market opportunity in excess of US\$2.5tn over the next 15 years as logistics space per capita in China moves from 1/12th of the US today to 1/3rd by 2029.

Disclosure Appendix

Reg AC

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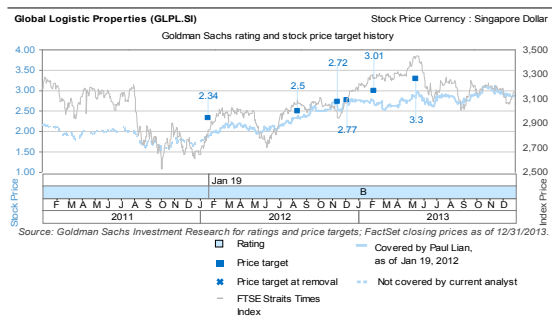
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