

Centuria Industrial Reit Equity Research Report

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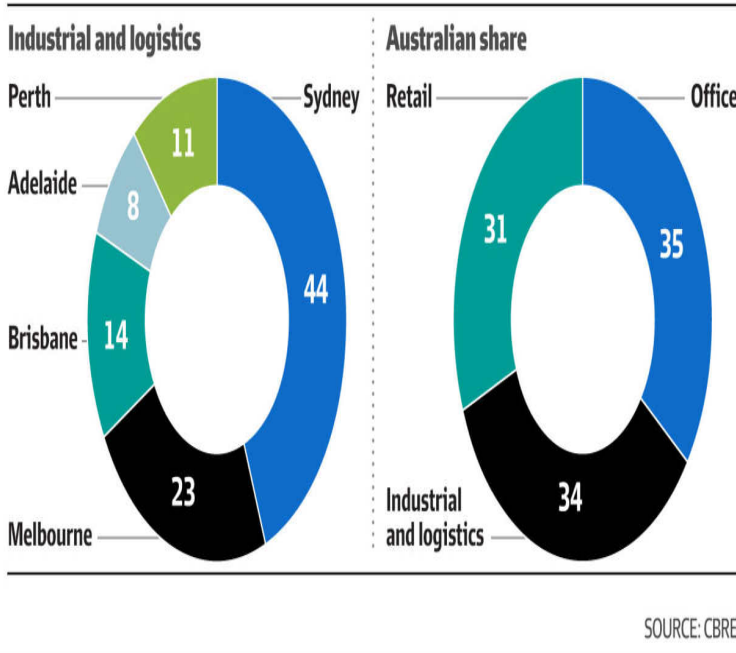
Executive Summary

Centuria Industrial REIT (ASX: CIP) is currently undervalued by the market, as demonstrated by a robust discounted cash flow (DCF) valuation that places its intrinsic value at \$3.38 per share—well above its recent trading levels—reflecting conservative assumptions for free cash flow growth and a growth rate of 3%. This valuation is further supported by CIP's strong fundamentals, including high portfolio occupancy, long lease expiries, and significant re-leasing spreads, all of which underpin stable and resilient cash flows. Additionally, CIP's share price trades at a substantial discount to net tangible assets (NTA), providing a margin of safety, while the prospect of monetary policy easing and continued demand for industrial assets offer clear catalysts for a re-rating. The buy thesis rests on the expectation that the market will eventually recognize CIP's intrinsic value, as supported by the DCF model, and close the gap between price and value.

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st listed pure-play industrial real estate ' high-quality industrial assets valued at 024[1]. The trust focuses on urban infill

locations, with 90% of its portfolio concentrated on Australia’s eastern seaboard, particularly in Sydney and Melbourne, which are critical logistics hubs due to their proximity to transport infrastructure and population centres[2], holding 67% of the market share of capital stock in 2023 [8].

CIP’s tenant base is diversified across manufacturing, distribution, transport logistics, and cold storage, with major tenants including Amazon, Linfox, and Toll Group[1]. Occupancy remains robust at 98%, supported by a weighted average lease expiry (WALE) of approximately 7.7 years by income[3].

Industry Outlook

The outlook for Australia’s industrial property sector in 2025 remains positive, though growth is moderating after several years of rapid expansion. New supply is expected

to decline, especially in Melbourne, which should help stabilize vacancy rates and support steady rental growth in key urban markets. Demand fundamentals remain strong, driven by population growth, e-commerce, and supply chain onshoring, with urban infill assets in Sydney and Melbourne continuing to attract tenants and investors [4]. While rental growth is becoming more localized and some precincts are seeing increased competition, industrial property remains the most favoured commercial sector, with stable yields and resilient land values expected through the year [6].

Financial Performance

Centuria Industrial REIT (CIP) continues to demonstrate strong financial performance, highlighting the resilience and quality of its portfolio. In the first half of FY25, CIP reported funds from operations (FFO) of \$56.6 million, translating to 8.9 cents per unit, with distributions rising to 8.1 cents per unit. Statutory profit reached \$62.6 million, up from \$54.1 million in the previous year, reflecting both income growth and effective cost management. The trust achieved a 6.4% like-for-like net operating income (NOI) increase, driven by robust re-leasing spreads averaging 50% across 79,000 square meters of leasing activity, which underscores CIP's ability to secure premium rents in a tight industrial market. High occupancy was maintained at 97.1%, and with gearing at 33.5%, a high proportion of debt hedged, and \$233 million in liquidity, CIP is well positioned to navigate market volatility[1]. Management's reaffirmed full-year guidance further demonstrates confidence in the trust's income stability and growth outlook.

Valuation

The DCF valuations for CIP gave two differing share price values. Pulling data from Simply Wall St and Alpha Spread[6][7], a conservative approach, directly forecasting free cash flow (FCF), produces a lower share price estimate of \$2.12, a downside of 27% from the current stock price of \$2.92, reflecting expectations of declining FCF despite stable or growing revenue. Alternatively, using a revenue-based approach-where FCF is calculated from the average of prior years' FCF-to-revenue ratios and applied to forecasted revenue, yields a much higher valuation of \$3.83 per share, an upside of 16%. This difference is due to the different assumptions about future margins and cash conversion, with some forecasts anticipating rising costs or capital needs that could weigh on FCF even as revenue grows[6]. The wide DCF range underscores the need to closely examine both revenue and cash flow assumptions when valuing CIP and suggests that the market may be underestimating the trust's ability to translate revenue growth into sustainable free cash flow.

Recommendation

Given the company's share price valuation and operational outlook, we recommend a Buy on Centuria Industrial REIT. This decision is underpinned by a discounted cash flow (DCF) analysis, which values CIP at \$3.38 per share-well above its recent trading level of \$2.92. This valuation is further supported by the trust's strong fundamentals, including high occupancy rates, long lease expiries, and significant re-leasing spreads that underpin stable and resilient cash flows. CIP's share price also trades at a meaningful discount to its net tangible assets (NTA), providing investors with a margin of safety. While DCF scenarios using more conservative free cash flow forecasts

suggest a lower bound of \$2.12 per share, the higher-end valuation of \$3.83 demonstrates substantial upside potential if CIP can maintain historical cash conversion rates as revenue grows. Additionally, the prospect of monetary policy easing and sustained demand for industrial assets in key urban markets serve as clear catalysts for a re-rating. We believe the market is underestimating CIP's ability to convert revenue growth into sustainable free cash flow and expect the share price to increase to a higher intrinsic value as these factors materialize.

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