PhillipCapital

Mapletree Industrial Trust

Low gearing – Still has firepower for more bang

SINGAPORE | REAL ESTATE (REIT) | INITIATION

11 April 2016

REIT Snapshot

- Mapletree Industrial Trust (MINT) was listed on the Mainboard of the Singapore Exchange on 21 October 2010, with an Offering Price of S$0.93 per unit.
- Investment strategy of investing in a portfolio of income-producing real estate for industrial purposes, wholly or partially in Singapore.
- Sponsor backing from Mapletree Investments Pte Ltd with Rights of First Refusal (ROFR).
- Managed by Mapletree Industrial Trust Management Ltd, a wholly-owned subsidiary of Mapletree Investments Pte Ltd and Trustee is DBS Trustee Limited. The Manager is paid a Base Fee pegged to the Deposited Property and a Performance Fee pegged to Net property income. Trustee fees are pegged to the value of Deposited Property.
- Portfolio consists of 84 properties located in Singapore across five property types of: Flatted Factories (24 Clusters, 57 properties), Hi-Tech Buildings (8 Clusters, 12 properties), Business Park Buildings (3 properties), Stack-Up/Ramp-up Buildings (2 Clusters, 7 properties) and Light Industrial Buildings (5 properties).
- Portfolio has a lettable area of 14.8mn sq ft and value of S$3.4bn as at 30 December 2015.
- Distributions are made on a quarterly basis. The distribution policy is 100% payout from the Listing Date to 31 March 2012; and at least 90% payout thereafter. The payout has been maintained at 100% since the Listing Date.
- Distribution Reinvestment Plan (DRP) was introduced in 3QFY03/13 (Fiscal Year End March) and has been suspended after the 3QFY03/16 distribution.

Investment Thesis – Pure-play on Singapore's Industrial real estate sector

- **GDP grew 2.0% in 2015; positive growth expected in 2016.** Ministry of Trade and Industry (MTI) forecasts modest growth of 1%~3% in 2016. Private-sector economists forecast 1.9% growth in 2016.
- **Demand-supply dynamics look unfavourable, but...** industrial real estate has a track-record of being relatively resilient.
- **Flatted Factories are the bedrock of MINT's portfolio.** The properties are centrally located and have a track-record of high occupancy and good tenant retention. Moreover, new supply is not in direct competition with MINT.
- **Moving up the value chain by growing the Hi-Tech Buildings segment.** This is in line with developments as the economy evolves towards value-added manufacturing.
- **Boost to distribution per unit (DPU) on completion of build to suit (BTS) project.** This will come about after the Hewlett-Packard build-to-suit (BTS) project reaches steady state and is expected to contribute c.10% of portfolio Gross rental income.
- **MINT's low gearing will be the firepower to keep going.** Low gearing of 29.3% provides MINT with a debt headroom of c.S$580mn by our estimate (assume 40.0% gearing), to make acquisitions and potentially grow the portfolio by c.17%.

Initiating coverage with "Accumulate" rating

MINT has a track record of stable income distribution underpinned by healthy tenant retention and a high portfolio occupancy. While we see near term challenges in the industrial real estate sector and execution risks from a portfolio undergoing transition, one cannot ignore the fact that MINT still has the firepower to gear up and grow its portfolio. We have a DDM valuation of **S$1.70** for MINT.

Note: MINT will be announcing FY03/16 financial results on 25 April after market hours.

Accumulate (Initiating)

CLOSING PRICE	SGD 1.610
FORECAST DIV	SGD 0.107
TARGET PRICE	SGD 1.700
TOTAL RETURN	12.3%

COMPANY DATA

O/S SHARES (MN) :	1,801
MARKET CAP (USD mn / SGD mn) :	2,149 / 2899
52 - WK HI/LO (SGD) :	1.64 / 1.35
3M Average Daily T/O (mn) :	2.33

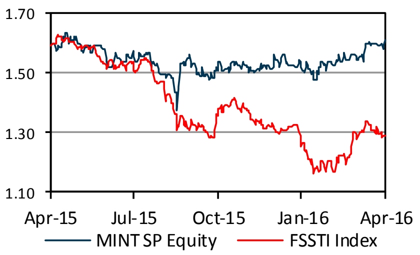
MAJOR SHAREHOLDERS (%)

MAPLETREE INVESTMENTS PTE LTD	34.2%
SCHRODERS PLC	8.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.6	6.9	8.7
STI RETURN	(0.3)	3.3	(16.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY14	FY15	FY16e	FY17e
Gross Rev. (SGD mn)	299.3	313.9	329.7	331.1
NPI (SGD mn)	214.7	228.6	243.8	241.5
Dist. Inc. (SGD mn)	166.1	180.8	192.4	189.3
P/NAV (x)	1.17	1.21	1.20	1.22
DPU, adj (Cents)	9.92	10.43	11.05	10.73
Distribution Yield, %	7.1	6.9	7.1	6.9

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.5%; Terminal g: 0.5%)

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MCI (P) 118/10/2015
Ref. No.: SG2016_0070

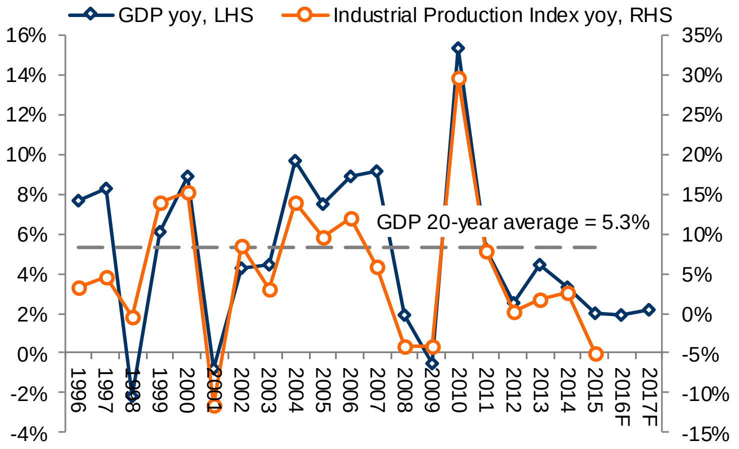
Investment Thesis – Pure play on Singapore's Industrial real estate sector

Mapletree Industrial Trust (MINT) holds a portfolio of industrial properties located exclusively within Singapore. These properties are diversified across five segments of Flatted Factories, Hi-Tech Buildings, Business Park Buildings, Stack-up/Ramp-up Buildings and Light Industrial Buildings.

1. Singapore's economy forecasted to grow at a slower rate

Singapore's economy experienced an average annual growth of 5.3% over the last 20 years. More recently, the economy grew 5.3%, 2.5%, 4.4%, 3.3% and 2.0% in 2011, 2012, 2013, 2014 and 2015 respectively, putting the 5-year average growth at 3.5%. The Ministry of Trade and Industry (MTI) forecasts the Singapore economy to grow at a modest pace of 1%~3% in 2016. On the same token, private-sector economists have recently lowered their expectations to 1.9% from 2.2% a quarter ago – both of which are lower than the 5-year average growth rate. Consensus forecasts compiled by Bloomberg show expectations for 1.9% and 2.2% growth in 2016 and 2017 respectively.

Figure 1. Singapore annual GDP & Industrial growth, 1996-2017F

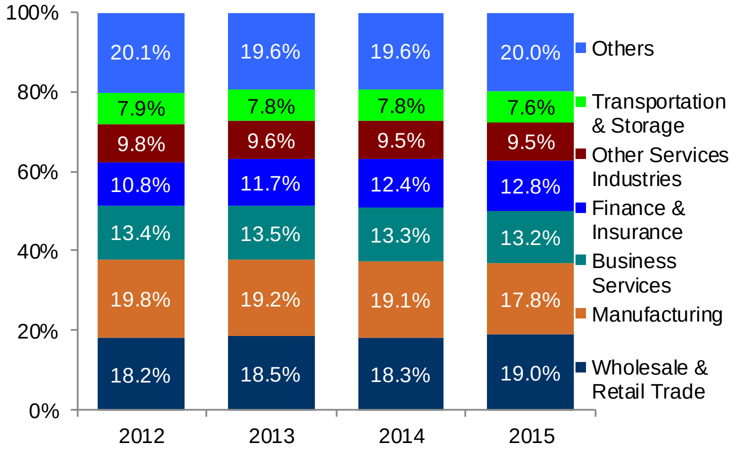


Source: Bloomberg, MTI, Phillip Securities Research (Singapore)

2. Cautious demand stemming from weak Manufacturing data…

The Singapore economy grew 2.0% in 2015, but the manufacturing sector contracted -5.2% to S$69.6bn. The manufacturing sector accounted for 17.8% of the economy in 2015, down 1.6pps from the previous three-year historical average of 19.4%. In its press release (24 February 2016) on the Economic Survey of Singapore, the MTI has highlighted its expectations of a weak outlook for the manufacturing sector due to weak external demand, and negative impact from lower oil prices with fewer rig orders adversely affecting the precision engineering cluster within the oil & gas value chain. Based on the overlay chart above, of historical GDP growth and Industrial Production Index growth, we believe that the Industrial Production Index growth will be between -3% to +1% in 2016. Private-sector economists surveyed by the MTI are expecting the manufacturing sector to contract -2.7% in 2016.

Figure 2. GDP trend by Industry/Sector, at 2010 Market Prices



Source: SingStat, Phillip Securities Research (Singapore)

Manufacturing sector contribution to GDP, and yoy growth, at 2010 Market Prices

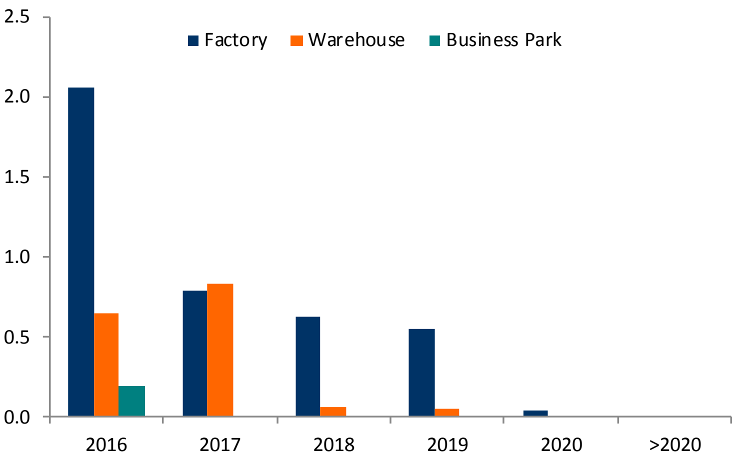
	2012	2013	2014	2015
GDP (S$ bn)	354.9	371.5	383.6	391.3
Manufacturing sector (S$ bn)	70.3	71.5	73.4	69.6
Percentage contribution to GDP	19.8%	19.2%	19.1%	17.8%
Percentage change over previous year	0.3%	1.7%	2.7%	-5.2%

Source: SingStat, Phillip Securities Research (Singapore)

3. … against a backdrop of oversupply of space

JTC estimates about 2.9mn sqm and 1.6mn sqm of Industrial space to come on-stream in 2016 and 2017 respectively. This is equivalent to about 6% and 3% of current available stock (44.5mn sqm as of 4Q15). The additional space coming on stream is significantly higher than the average annual supply of around 1.7mn sqm in the past three years. Historical average demand over the past three years was 1.2mn sqm. With new supply exceeding new demand, this will result in a tenant's market. Consequently, this could apply downward pressure on both sector-wide occupancy and rents.

Figure 3. Supply pipeline profile, as at 4Q 2015 (mn sqm)



Source: JTC, Phillip Securities Research (Singapore)

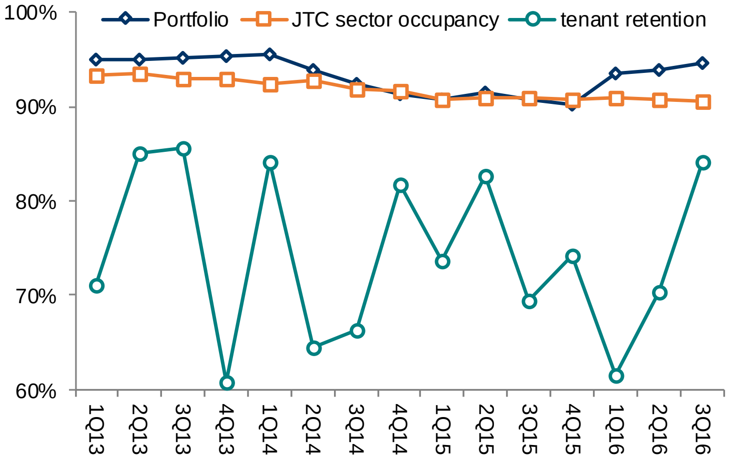
4. Industrial property sector has a track record of relative resilience

According to MINT's Initial Public Offering (IPO) Prospectus, the Industrial real estate sector was relatively resilient compared to Commercial real estate sector during the Global Financial Crisis (GFC). Industrial rents fell by 13.4% and occupancy dipped by 1.8pps from 2008 and 2009 due to the GFC, while Commercial rents and occupancy in the Central Area fell by 24.6% and 3.3pps respectively.

5. **Customer stickiness at MINT: Above average occupancy, decent tenant retention rate, long-staying tenants**

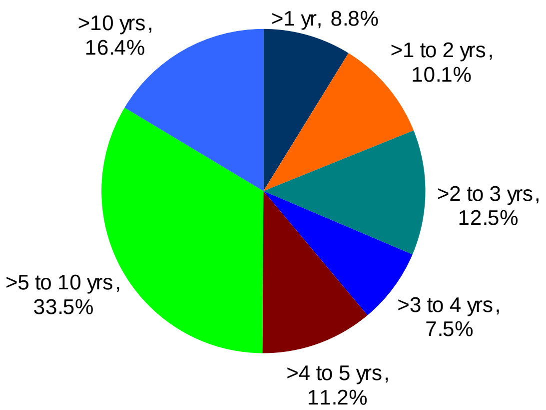
MINT's portfolio enjoys a high level of customer stickiness. This is quantifiable through its portfolio occupancy, retention rate, and consequently the tenant's length of stay. MINT has consistently been able to maintain a portfolio occupancy of more than 90%, which is better than the JTC sector average. Tenant retention rate has historically fluctuated within the band of 60%~85%. This contributed to the long-staying profile of the tenants, with 61.1% of tenants (as at the end of December 2015) having leased the properties for more than four years; bearing in mind that a typical tenancy agreement is for three years.

Figure 4. Portfolio occupancy & tenant retention rate



Source: Company, JTC, Phillip Securities Research (Singapore)

Figure 5. Tenant length of stay profile, as at end of December 2015

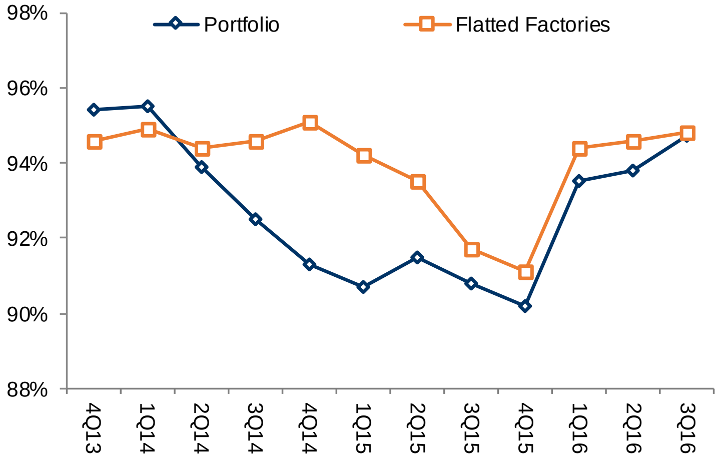


Source: Company, Phillip Securities Research (Singapore)

6. **Flatted Factories: The bedrock of the manufacturing sector and MINT's portfolio**

According to MINT's IPO Prospectus (Appendix E), small and medium-sized enterprises (SMEs) are the "backbone of most economies, creating jobs and generating wealth for a large part of the population". Flatted Factories are the property of choice by SMEs due to its low rent, resulting in affordable accommodation costs. MINT's portfolio has 44.7% exposure to the Flatted Factory segment by property value as of 3QFY03/16, 48.8% by Gross rental income (GRI) and 49.5% by Net property income (NPI) for 9MFY03/16. The occupancy of MINT's Flatted Factories segment has been consistently higher than the portfolio's occupancy, indicating the strong demand for affordable space that the Flatted Factories segment provides, over the other types of industrial space.

Figure 6. Flatted Factories occupancy lifting portfolio occupancy

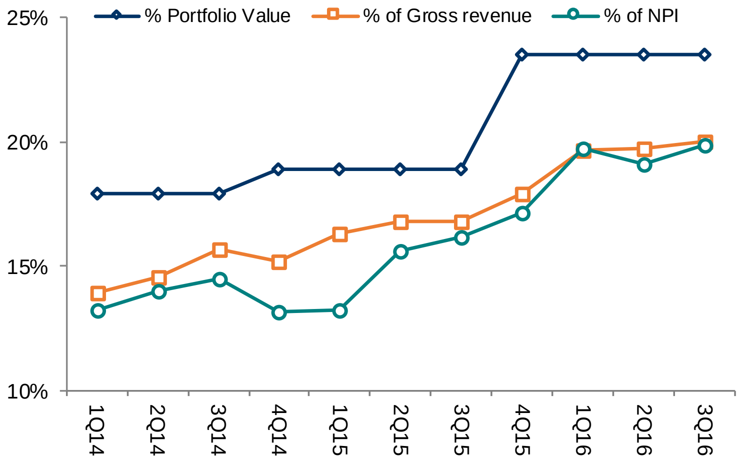


Source: Company, Phillip Securities Research (Singapore)

7. **Upcoming supply of Flatted Factories not in direct competition to MINT**
   The upcoming supply of new Flatted Factories is generally located at Tuas, which is not in direct competition to MINT's portfolio of Flatted Factories. The best performing Flatted Factories in MINT's portfolio are located in the central locations (Toa Payoh North, Tanglin Halt, Redhill and Tiong Bahru); and they enjoy high occupancies of at least 89.0% and up to 99.8% as of 31 March 2015. The biggest cluster of Flatted Factories within the portfolio are located at Kallang Basin (6 Clusters, 13 properties) and they have occupancies of between 88.3% and 96.5% as of 31 March 2015.

8. **Moving up the value chain: Growing the Hi-Tech Buildings segment**
   The strategic direction that MINT is currently undertaking, is to grow its Hi-Tech Buildings segment. This is to cater to the demand for higher specifications buildings, as domestic manufacturing activities move up the value chain. MINT is in the process of transforming the portfolio to keep pace with the knowledge-economy. Typical tenants of Hi-Tech Buildings come from precision engineering, medical technology, as well as clean and light manufacturing. MINT's portfolio has 23.5% exposure to the Hi-Tech Buildings segment by property value as of 3QFY03/16, and 19.8% and 19.6% by GRI and NPI respectively, for 9MFY03/16.

Figure 7. Trend of growing Hi-Tech Buildings segment



Source: Company, Phillip Securities Research (Singapore)

REIT Background

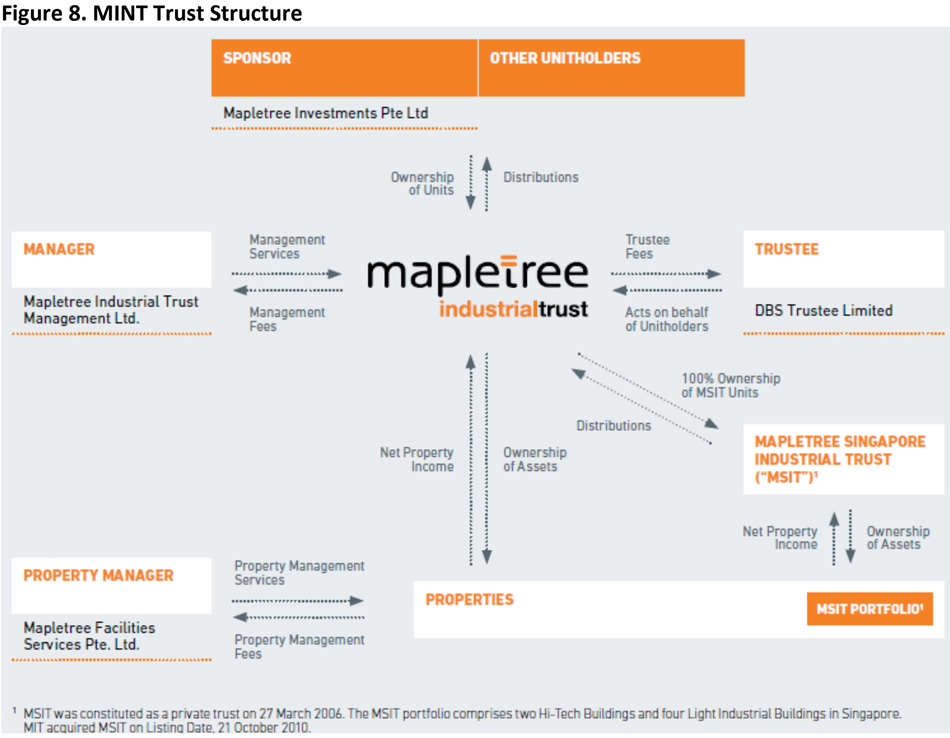
Mapletree Industrial Trust (MINT) is an Industrial REIT with a Singapore-focused mandate. MINT holds a diversified portfolio of 84 industrial properties valued at c.S$3.4bn as at 30 December 2015, and a lettable area of 14.8mn sq ft as at 31 December 2015. MINT was listed on 21 October 2010 with an Offering Price of S$0.93.

Trust Structure

The following figure illustrates the structure of the trust with the various stakeholders.

- **Trustee.** DBS Trustee Limited. The property portfolio is held in a trust by the Trustee. The Trustee is responsible for the safe custody of the assets on behalf of Unitholders.
- **REIT Manager.** The REIT is externally managed by Mapletree Industrial Trust Management Ltd, a wholly-owned subsidiary of the Sponsor.
- **Sponsor.** Mapletree Investments Pte Ltd (MIPL) is a leading real estate development, investment and capital management company headquartered in Singapore. Its strategic focus is to invest in markets and real estate sectors with good growth potential. By combining its key strengths as a developer, an investor and a capital manager, MIPL has a portfolio comprising award-winning developments across real estate classes that delivers consistent and high returns.

Figure 8. MINT Trust Structure



Source: Company FY03/15 Annual Report

Investment Strategy

MINT has an investment strategy to provide quality Industrial space in Singapore. The current strategic thrust is to grow the Hi-Tech Buildings segment.

Manager's fee-structure

- **Base fee.** 0.5% per annum of the value of the Deposited Property.
- **Performance fee.** 3.6% per annum of Net Property Income.
- **Acquisition fee.** 1.0% of acquisition price of real estate, equity interests or investment.
- **Divestment fee.** 0.5% of sale price of real estate, equity interests or investment.

Portfolio diversification: by property type

MINT currently holds 84 properties across five segments. The following description has been extracted from MINT's FY03/15 Annual Report.

- **Flatted Factories** comprise high-rise multi-tenanted buildings. Standard units range from 1,000 sq ft to 10,000 sq ft, sharing naturally ventilated corridor and lift lobbies. Other common facilities include car parks, loading/unloading areas and cargo lifts. Selected Flatted Factories enjoy amenity centres located within the cluster.

  Many of MINT's Flatted Factories are located near public housing estates, giving tenants easy access to a ready labour pool, shops and services of suburban town centres. Most of the Flatted Factories are also well-connected to major roads, expressways and Mass Rapid Transit system, making them convenient for tenants.

- **Hi-Tech Buildings** are high specification industrial buildings with higher office content for tenants in technology and knowledge-intensive sectors. They are usually fitted with air-conditioned lift lobbies and common areas. Most of MINT's Hi-Tech Buildings are occupied by anchor tenants who are involved in light industrial activities such as precision engineering and data centre operations. The tenants include multinational corporations and Singapore-listed companies who are committed to long term leases with built-in rent escalations.

- **Business Park Buildings** are high-rise multi-tenanted buildings within a landscaped environment. Fitted with air-conditioned lift lobbies and common areas, each unit can be customised to meet tenants' requirements. They serve as regional headquarters for multinational companies and spaces for research and development and knowledge-intensive enterprises.

  Business Park Buildings are located within government identified zones called "Business Parks", which accommodate various amenities such as food and beverage outlets, fitness centres, convenience outlets and childcare centres. They are served by good public transportation network and well-connected to major roads and expressways.

- **Stack-up/Ramp-up Buildings** are multi-storey developments that serve a wide range of industrial activities. Principal activities included precision engineering, semiconductor assembly and manufacturing of products like dies, moulds, tools and commodities.

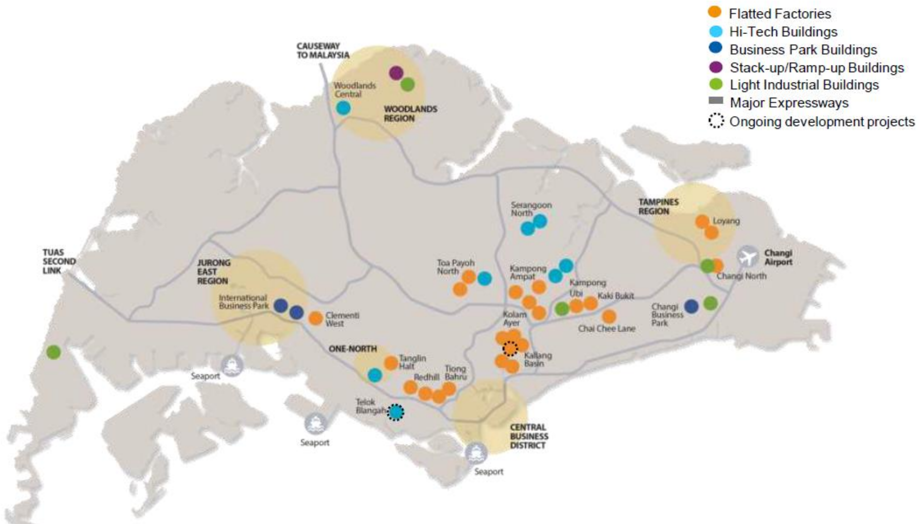
  Each unit within the six-storey stack-up buildings is a standalone factory with its own loading area and parking lots. Each level of the eight-storey ramp-up building resembles a typical Flatted Factory's ground floor. Units located on each floor of the ramp-up building share common loading and unloading area.

- **Light Industrial Buildings** consist of medium to high rise developments. They are located in central locations or in areas with good access to other parts of Singapore via the major expressways. Each building is occupied by an anchor tenant who is involved in a light industrial activity such as precision engineering or multimedia manufacturing.

Figure 9. Portfolio by type

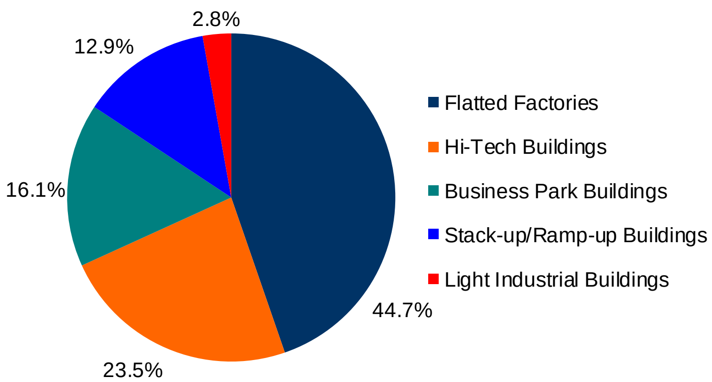
Source: Company Investor Presentation, March 2016

Figure 10. Locations of properties



Source: Company Investor Presentation, March 2016

Figure 11. Portfolio value by property type

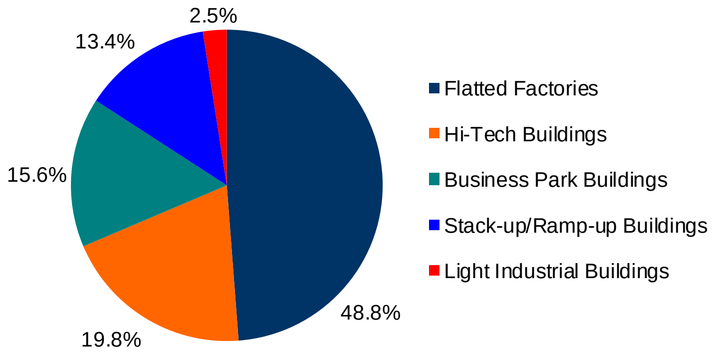


Source: Company, Phillip Securities Research (Singapore)

Portfolio rental income diversification: by property type

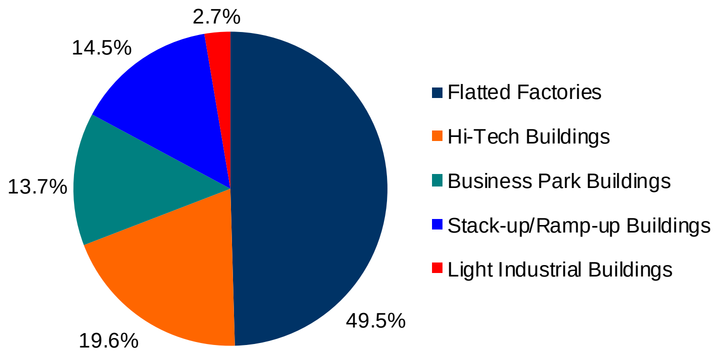
The following charts illustrate the diversification of GRI and NPI across the portfolio for 9MFY03/16.

Figure 12. 9MFY03/16 Gross rental income by property type



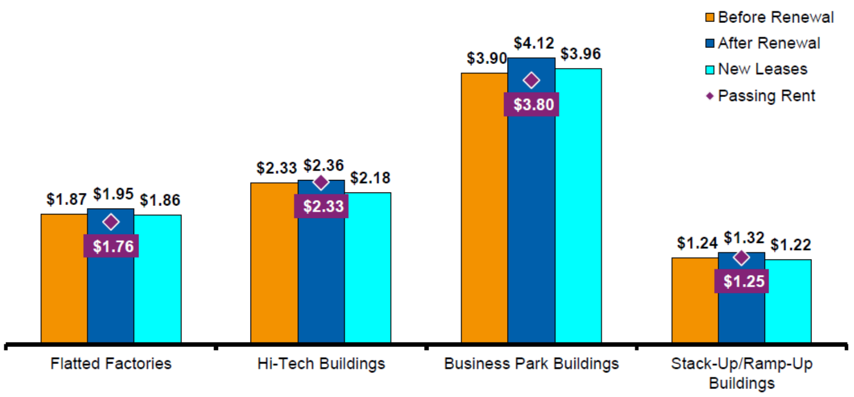
Source: Company, Phillip Securities Research (Singapore)

Figure 13. 9MFY03/16 Net property income by property type



Source: Company, Phillip Securities Research (Singapore)

Figure 14. Rental rates and reversions in 3QFY03/16



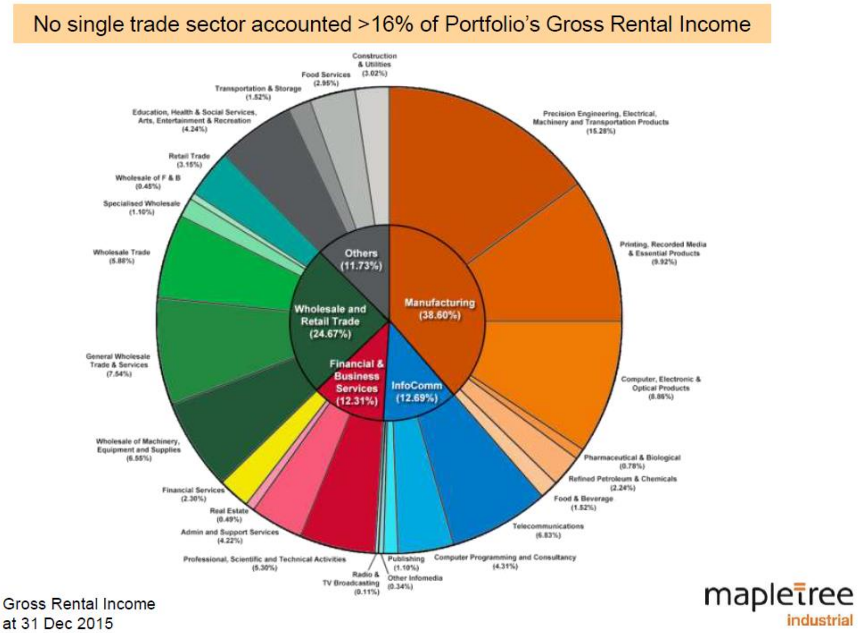
Renewal Leases	74 Leases (211,095 sq ft)	3 Leases (7,367 sq ft)	4 Leases (18,311 sq ft)	11 Leases (306,453 sq ft)
New Leases	53 Leases (104,178 sq ft)	11 Leases (47,376 sq ft)	4 Leases (18,730 sq ft)	4 Leases (77,113 sq ft)

Source: Company Investor Presentation, March 2016

Portfolio rental income diversification: by tenant's trade sector

Rental income from tenants in the portfolio come from five trade sectors of Manufacturing (38.6%), InfoComm (12.7%), Financial & Business Services (12.3%), Wholesale and Retail Trade (24.7%) and Others (11.7%).

Figure 15. Contribution to GRI by tenant trade sector



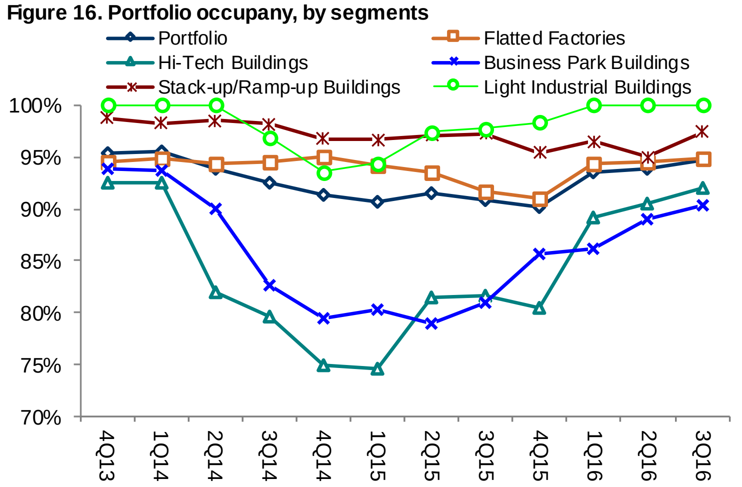
Source: Company 3QFY03/16 results presentation, 26 January 2016

Portfolio GRI is highly weighted towards multi-tenanted buildings (MTBs)

As of FY03/15, 94.6% of GRI came from MTBs, while the remaining 5.4% came from single-user assets (SUAs). The portfolio currently holds six SUAs, of which three are Hi-Tech Buildings and the remaining three are Light Industrial Buildings. MTBs allow for more frequent rental reversions due to the shorter leases, while SUAs provide stability to the income due to the longer leases.

Review of the portfolio by property type

Figure 16. Portfolio occupany, by segments



Source: Company, Phillip Securities Research (Singapore)

Flatted Factories

The Flatted Factories segment is the bedrock of the portfolio with twenty-four property Clusters that contributed 48.8% of portfolio GRI and 49.5% of portfolio NPI for 9MFY03/16. With its average passing rent of $1.76 psf/month in 3QFY03/16, Flatted Factories is a low-cost option for SMEs to operate from. Office spaces start from 1,000 sq ft, and rent can be as low as $1,760 per month, making it very affordable for SMEs. We expect this segment to remain fairly resilient.

Hi-Tech Buildings

There are five Hi-Tech Buildings are in the portfolio. All five of them are single-user assets (SUAs), with the exception of the Telok Blangah Cluster, which is currently undergoing redevelopment for a BTS project for Hewlett-Packard. We are positive on the Hi-Tech Buildings segment, as MINT embarks on its plan to grow it.

Business Park Buildings

MINT has three Business Park Buildings in its portfolio. They are The Signature, located at Changi Business Park (CBP), and The Strategy and The Synergy, both located at International Business Park (IBP). Two high-profile tenants of Credit Suisse and Lucasfilm had vacated The Signature property on 30 June 2013 and 31 December 2013, respectively, and occupancy had been weak since. The Business Park Buildings segment had an average occupancy higher than 81.5% during FY03/15. The average was dragged down however, by The Signature which had an average occupancy of 45.8% during We understand from the Manager that committed occupancy at The Signature is now 75%.

Stack-up/Ramp-up Buildings

There are seven properties across two Clusters in the Stack-up/Ramp-up Buildings segment. Although built to slightly higher specifications compared to Flatted Factories, the average rent for the Stack-up/Ramp-up Buildings segment is lower compared to Flatted Factories. The key reason for the lower rent is that the properties are located in Woodlands. This is in contrast to the Flatted Factories which are generally located in central regions.

Light Industrial Buildings

There are five Light Industrial Buildings within the portfolio, of which two have been converted to multi-tenanted buildings (MTBs) and the remaining three are single-user assets (SUAs). Of the two MTBs, 45 Ubi Road 1 had an average occupancy of 88.0% in FY03/15, while 19 Changi South Street 1 has been converted during 4QFY03/16. The master lessee at 19 Changi South Street 1, Avaplus Ltd., had given notice to take up 25% of the property going forward. We do not view this to have a material adverse effect, as the property contributed only 0.4% of portfolio GRI in FY03/15.

Organic growth through in-built rental escalations, build to suit (BTS) projects and asset enhancement initiatives (AEI)

In-built rental escalations

Rent agreements typically have an average fixed rental escalation of about 2% per annum.

Track-record of delivering on BTS projects

- **K&S Global Corporate Headquarters.** The main tenant at this Hi-Tech Building is Kulicke & Soffa Pte Ltd. The property is located at 23A Serangoon North Avenue 5. The development cost of the property was S$50mn and Temporary Occupation Permit (TOP) was obtained in October 2013. The property was valued at S$60mn as of the end of March 2015.
- **Equinix.** The Hi-Tech Building at 26A Ayer Rajah Crescent is a seven-storey shell & core data centre leased to Equinix Singapore Pte Ltd. at one-north. The property was developed for S$108mn and obtained its TOP on 27 January 2015. The property began contributing income in 4QFY03/15 and was valued at S$120mn as of the end of March 2015.

Ongoing BTS project

- **Hewlett-Packard (HP) Hi-Tech Building.** The redevelopment commenced in FY03/15 after tenants were relocated out of the Telok Blangah Cluster. The property was reclassified from Flatted Factory to Hi-Tech Building. The S$226mn project with 100% commitment by HP is expected to be completed in two phases by 2H2016 and 1H2017. HP has committed to a lease term of 10.5 + 5 + 5 years. The Manager expects the property to contribute c.10% of portfolio GRI when completed, and have a yield of c.10%.

  Six-month rent-free incentive for HP BTS will negatively impact 2HFY03/17

  We estimate the six-month rent-free incentive period to coincide around 2HFY03/17. We are forecasting no income from the property, but additional property expenses of c.S$2.1 mn per quarter. As such, we are expecting some y-o-y weakness in distribution per unit (DPU) in 3Q and 4QFY03/17.

Figure 17. BTS – Hewlett-Packard

Property	GFA	Estimated Cost	Date of Completion
2 Hi-Tech Buildings	824,500 sq ft	S$226 million[1]	Phase 1 : By 2H2016 Phase 2 : By 1H2017


Phase 1 & 2: Superstructure works in progress


Artist's impression of completed development

- S$226 million[1] BTS project for Hewlett-Packard on track for completion
- Unlocking value for portfolio by almost doubling GFA to 824,500 sq ft
- 100% committed by Hewlett-Packard for lease term of 10.5[2] + 5 + 5 years with annual rental escalations[3]

Source: Company Investor Presentation, March 2016

Ongoing AEI

- **Kallang Basin 4 Cluster.** This is an opportunistic AEI to develop a 13-storey Hi-Tech Building at the existing open-air car park within the cluster, together with improvement works to the existing properties. The estimated cost is S$77mn and expected date of completion in 1Q2018 (4QFY03/18). The Manager expects a property yield of c.8%.

Figure 18. AEI – Kallang Basin 4 Cluster

Location	Additional GFA	Estimated Cost	Date of Completion
26, 26A, 28 & 30 Kallang Place	317,000 sq ft	S$77 million	1Q2018 (change from 4Q2017)[1]


Development of Hi-Tech Building at existing car park


Artist's impression of new Hi-Tech Building

- Development of 13-storey[1] Hi-Tech Building (at existing car park) and improvement works to existing buildings
- Located at Kallang iPark, an upcoming industrial hub for high value-add and knowledge-based businesses
- Well-served by major expressways and public transportation

Source: Company Investor Presentation, March 2016

Inorganic growth through third-party acquisitions and Rights of First Refusal (ROFR)

- **Third-party acquisition of 2A Changi North Street2.** Light Industrial building acquired in May 2014.

ROFR pipeline

The Sponsor has granted the ROFR to MINT over future sale or acquisition of industrial or business park properties in Singapore. This ROFR excludes Mapletree Business City (MBC) and MBC II, which were granted to Mapletree Commercial Trust.

- **Tai Seng Property is nearing completion.** The Sponsor announced the acquisition of a prime industrial site at Tai Seng in December 2013 for S$120mn. The property is scheduled to be completed in 1H2016.

Capital management

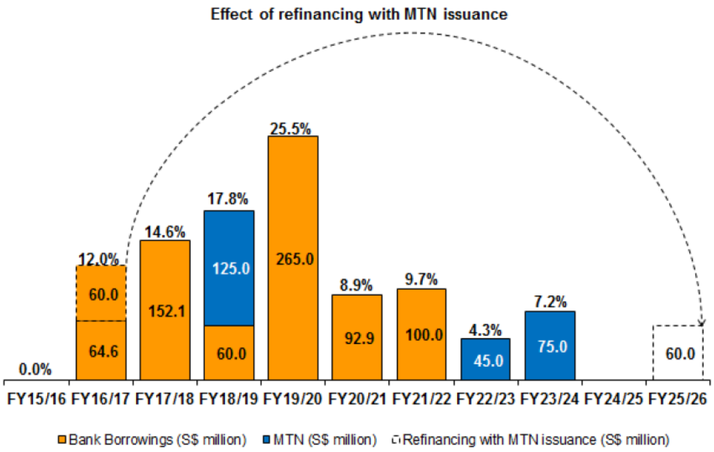
Manageable gearing with comfortable debt headroom

Gearing stands at 29.3% as of 3QFY03/16 which is the second lowest among all the industrial S-REITs (highest: 41.7%, lowest: 29.2%, average: 35.5%). We estimate a debt headroom of c.S$580mn (based on 40.0% gearing) available to make acquisitions, potentially growing the portfolio by c.17% from the existing S$3.4bn.

Refinancing of debt

MINT recently issued S$60mn 10-year 3.79% fixed-rate notes in March 2016 under its Medium Term Note (MTN) Programme. The sum raised was used to refinance about half of the borrowings that will be due in FY03/17. This has extended the weighted average debt maturity to 4.2 years from 3.6 years.

Figure 19. Debt maturity profile



Source: Company Investor Presentation, March 2016

Hedging of interest rate exposure

85.6% of the borrowings is hedged for a weighted term of 2.1 years. About S$420mn of hedges are expiring in FY03/17. This represents about 57.2% of total bank borrowings. The Manager expects that replacing the expiring interest rate hedges to be more costly in view of rising interest rates.

Distribution Reinvestment Plan (DRP) was introduced in 3QFY03/13; suspended after 3QFY03/16

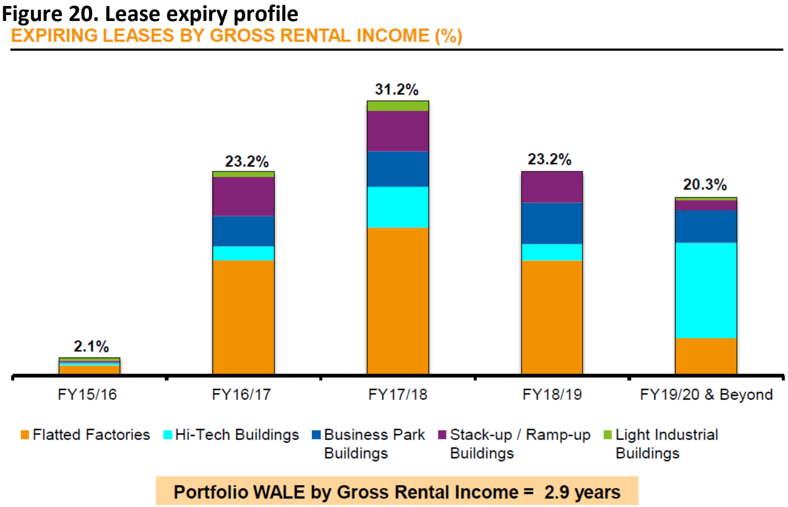
Proceeds from the DRP were used to fund the progressive requirements of past AEI and BTS projects. The DRP will be suspended after 3QFY03/16 distribution. We understand from the Manager that the DRP had a 40% participation rate, raising about S$15mn~S$18mn per quarter, or S$60mn~S$70mn per year. Going forward, we expect a slowdown in both AEI and BTS projects. However, as highlighted above, the REIT still has a low gearing of 29.3% and is able to utilise its debt headroom to fund acquisitions to grow the portfolio. We have also forecasted more cash being paid out as distributions compared to previous years.

Tenant management

Lease expiry profile

The portfolio has a fairly evenly staggered lease expiry profile. The portfolio weighted average lease expiry (WALE) by GRI is 2.9 years This is the shortest WALE among the industrial S-REIT peers. (sector average: 3.7 years by GRI; sector longest: 4.8 years by GRI, 8.7 years by net leasable area, NLA) The portfolio's shorter WALE arises from the large proportion of MTBs from the Flatted Factories, Business Park Buildings and Stack-up/Ramp-up Buildings segments.

Figure 20. Lease expiry profile



Source: Company Investor Presentation, March 2016

Investment Merits for MINT

- **Firepower to grow the portfolio.** MINT has a low gearing of 29.3%, resulting in a debt headroom of c.S$580mn (assuming 40.0% gearing) available for acquisitions.
- **Diversified portfolio of properties across five segments.** Exposure to Manufacturing sector (second largest contributor to GDP), through the derived demand for industrial real estate.
- **Stability from Flatted Factories segment.** Low-cost space that is the property of choice by SMEs.
- **Bringing Hi-Tech Buildings into the portfolio.** MINT is propositioning its portfolio by growing the Hi-Tech Buildings segment, as the economy evolves towards value-added manufacturing.
- **Attractive distribution yield.** MINT offers an attractive FY03/17e forward dividend yield of about 6.9%.

Investment Risks for MINT

We identify some of the risk factors applicable to MINT, their mitigating factors and summarise them in the following table.

Identification and management of risk factors

Risk Factors	Remarks
Refinancing risk	No refinancing requirement for FY03/16 Next refinancing in FY03/17 of S$64.6mn is 6.2% of total borrowings
Interest rate risk	85.6% of borrowings have been hedged, but about S$420mn of hedges are expiring in FY03/17
Financial risk	Low gearing at 29.3%; FY03/17e Interest cover ratio of 8.1x
Occupancy risk	Diversified between five property segments and various tenant trade sectors Healthy overall portfolio occupancy of 94.7%
Tenant concentration risk	Tenants diversified across various trade sectors; No single trade sector accounted for more than 16% of portfolio GRI
Operating risk	Short portfolio WALE of 2.9 years, mitigated by track record of tenant retention and long-staying tenants 23.2% by GRI up for renewal in FY03/17 Worse than expected rental reversions or vacancies
Regulatory risk	Changes in tenancy rules by JTC
Execution risk	Unitholder dilution & value destruction through Placements or Rights Issues to acquire properties that are not DPU accretive

Source: Company, Phillip Securities Research (Singapore) estimates

Valuation Methodology: Dividend Discount Model (DDM)

Absolute valuation. The DDM is an appropriate method to value MINT as most of its cash flow is paid out to Unitholders through dividends. We derive a valuation of S$1.70 from our DDM estimates.

Dividend Discount Model

Y/E Mar	FY17e	FY18e	FY19e	FY20e	FY21e
Forecasted distributions (S$)	0.107	0.115	0.121	0.121	0.123
PV of forecasted distributions (S$)	**0.100**	**0.100**	**0.098**	**0.091**	**0.085**
Terminal value (S$)					1.761
PV of terminal value (S$)					**1.227**
Price Target (S$)	**1.700**				
Assumptions					
Cost of equity	7.5%				
Terminal growth rate	0.5%				

Source: Phillip Securities Research (Singapore)

Risks to our valuation

Speculative AEI of Kallang Basin 4 Cluster. While it is an opportunity to expand the portfolio, it is a speculative development without pre-committed tenants. We understand from the Manager that in the previous experience of the speculative AEI at the Toa Payoh North 1 Cluster (TOP obtained on 29 January 2014), the ramp-up period to fill the building that had undergone the AEI took up to a year.

Worse than expected rental reversions or non-renewals. The Manager has guided for expectations of flattish rental reversions going forward. We have forecasted flat GRI growth for the immediate year. Strong downward reversions or rampant non-renewals would adversely affect MINT and our valuation.

Peer comparison

While we value MINT using a DDM, we also compare MINT on a relative valuation basis against its domestic peers. We have *excluded* Mapletree Logistics Trust, Cache Logistics Trust, and Keppel DC REIT from the comparison table as they hold a portfolio consisting exclusively of either warehouses or data centres.

Larger capitalised REITs tend to trade at a premium

MINT is trading above the sector average price-to-NAV multiple. Among the peers, the larger capitalised REITs tend to trade at a premium to their book value.

Industrial S-REITs peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S$ mn)	Price (S$)	P/NAV (x)	12M trailing yield (%)
Ascendas REIT	6,119	2.38	1.15	7.7
Mapletree Industrial Trust	2,899	1.610	1.21	6.8
AIMS AMP Capital Industrial REIT	867	1.365	0.90	8.3
Cambridge Industrial Trust	717	0.550	0.82	8.7
Soilbuild Business Space REIT	699	0.745	0.93	8.7
Viva Industrial Trust	617	0.715	0.88	9.8
Sabana Shari'ah Compliant REIT	477	0.650	0.73	10.5
Average			**0.95**	**8.7**

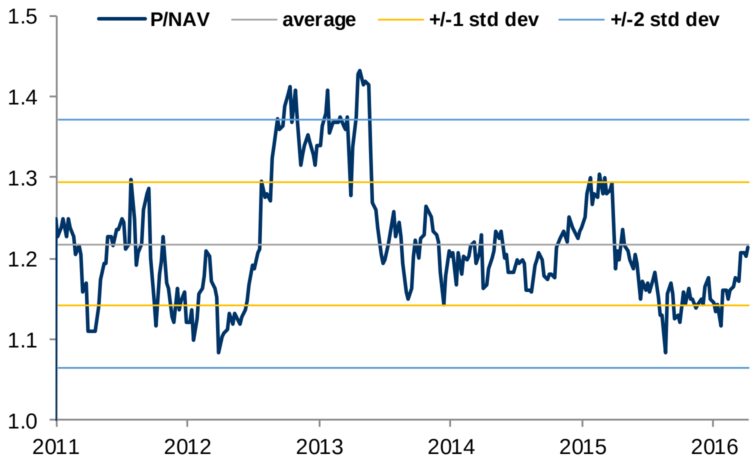
Source: Bloomberg (Updated: 8 April 2016)

Historical comparison

MINT has never traded at a discount to book value

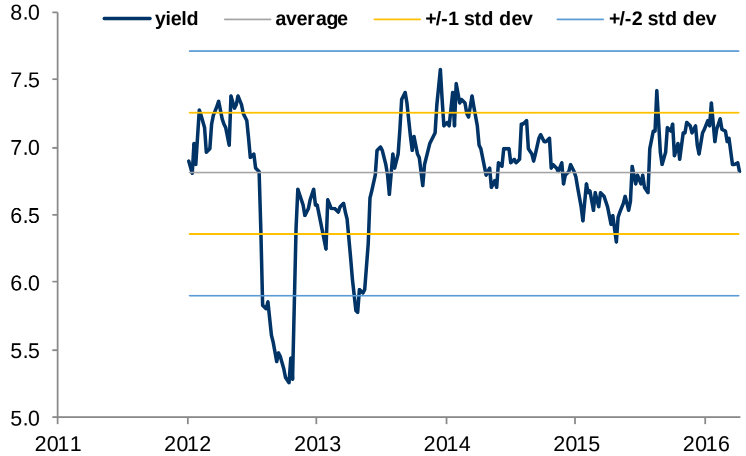
Although MINT is above the sector average P/NAV, we see that MINT has historically never traded at a discount to its book value. The lowest P/NAV multiple it has ever traded to was 1.08x.

Figure 21. Historical P/NAV (x) with SD bands



Source: Bloomberg, Phillip Securities Research (Singapore) estimates

Figure 22. Historical distribution-yield (%) with SD bands



Source: Bloomberg, Phillip Securities Research (Singapore) estimates

APPENDIX

Porter five forces for industrial real estate sector

Bargaining power of customers: moderate to high

- Bargaining power of customers is at a cycle high, due to oversupply situation. However, this is mitigated for MINT as a large proportion of MINT's portfolio (44.7% by valuation) is the Flatted Factories segment. There is a limited supply of such Flatted Factories which are in good locations with good transport links. There is strong demand by tenants and MINT's Flatted Factories have a track-record of high occupancy and high tenant retention.

Bargaining power of suppliers: high

- Supply of land for industrial use is allocated by the government. There is need to comply with Regulatory requirements, such as the "70/30 anchor tenant rule".

Threat of new entrants: low to moderate

- Threat is low, in terms of entrance by new REITs of similar scale and comparable Sponsor pedigree. However the market structure is highly fragmented with some private sector projects.

Threat of substitutes: low to moderate

- Almost no substitute for industrial space, since industrial activities are regulated to within the industrial zones; but there are substitute properties within the sector.

Intensity of rivalry: moderate

- Moderate because of the current over-supply situation, which would put pressure on landlords' ability to raise rent.

SWOT Analysis for MINT

Strengths

- Low gearing facilitates inorganic growth of portfolio using debt headroom.
- Portfolio of flatted factories are well-located, with nearby labour pool.
- Sponsor with a strong track-record.

Weaknesses

- High proportion of MTBs result in a shorter WALE compared to sector peers.
- Occupancy has been relatively weak at The Signature (Business Park Building at CBP).

Opportunities

- Business Park Buildings tap on demand for cheaper offices outside of Central Business District.
- Targeted growth in Hi-Tech Buildings segment in line knowledge-based economy.

Threats

- Further economic slowdown adversely affecting demand from tenants.
- Speculative Kallang Basin 4 Cluster AEI without pre-committed tenants.
- Worse than expected rental reversions or non-renewals.

Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	**299.3**	**313.9**	**329.7**	**331.1**	**355.0**
Property expenses	(84.5)	(85.3)	(85.9)	(89.7)	(96.0)
Net property income	**214.7**	**228.6**	**243.8**	**241.5**	**259.0**
Net Finance (Expense)/Inc.	(25.6)	(23.6)	(25.4)	(26.4)	(28.2)
Manager's fees	(23.2)	(24.8)	(26.4)	(26.1)	(26.9)
Other items	(2.2)	(2.3)	(2.5)	(2.6)	(2.8)
Exceptional items	-	-	-	-	-
Net income	**163.6**	**178.0**	**189.6**	**186.3**	**201.1**
FV change, Invmnt. properties	150.7	197.4	-	-	-
Total Return Before Tax	**314.3**	**375.4**	**189.6**	**186.3**	**201.1**
Taxation	(0.1)	(1.1)	(0.8)	(0.6)	(0.8)
Total Return After Tax	**314.3**	**374.3**	**188.8**	**185.7**	**200.2**
Distribution adjustments	(148.1)	(193.5)	3.6	3.6	3.8
Income available for distribution	**166.1**	**180.8**	**192.4**	**189.3**	**204.0**

Per share data

Y/E Mar	FY14	FY15	FY16e	FY17e	FY18e
NAV (S$)	1.20	1.32	1.34	1.32	1.32
EPU (Cents)	18.90	21.82	10.71	10.34	11.15
DPU (Cents)	9.92	10.43	11.05	10.73	11.53
NAV (S$)	1.20	1.32	1.34	1.32	1.32

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Mar, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Total return	314.3	374.3	188.8	185.7	200.2
Adjustments	(126.8)	(174.9)	30.2	29.1	31.1
WC changes	2.5	5.5	(1.5)	0.7	5.5
Cash generated from ops	190.0	204.9	217.6	215.4	236.8
Others	-	-	-	-	-
Cashflow from ops	**190.0**	**204.9**	**217.6**	**215.4**	**236.8**
CFI					
CAPEX, net	(90.2)	(34.2)	(28.1)	(30.4)	(7.6)
Purchase of Inv. Propty.	(47.6)	(20.3)	(9.5)	(16.0)	(16.0)
Others	-	-	-	-	-
Cashflow from investments	**(137.9)**	**(54.5)**	**(37.6)**	**(46.4)**	**(23.6)**
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	94.1	(54.3)	(37.2)	5.4	5.0
Dividends	(97.3)	(97.5)	(113.2)	(195.2)	(201.0)
Others	(25.5)	(22.4)	(25.6)	(26.6)	(28.3)
Cashflow from financing	**(28.7)**	**(174.2)**	**(176.0)**	**(216.4)**	**(224.3)**
Net change in cash	**23.4**	**(23.8)**	**4.0**	**(47.4)**	**(11.1)**
Effects of exchange rate	-	-	-	-	-
Ending cash	**95.7**	**72.0**	**75.9**	**28.5**	**17.4**

Balance Sheet

Y/E Mar, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
Investment properties	3,094	3,267	3,272	3,288	3,530
Inv. Propty. Under Devmnt.	76.0	157.0	188.0	218.4	-
PPE	0.006	0.001	-	-	-
Others	0.48	3.61	2.34	2.34	2.34
Total non-current assets	**3,170**	**3,428**	**3,463**	**3,509**	**3,533**
Cash	95.7	72.0	75.9	28.5	17.4
Trade receivables	5.5	13.4	12.3	11.8	12.9
Others	3.8	2.9	3.4	3.4	3.4
Total current assets	**105.0**	**88.2**	**91.5**	**43.7**	**33.7**
Total Assets	**3,275**	**3,516**	**3,554**	**3,553**	**3,566**
LIABILITIES					
Trade payables	67.9	70.3	68.6	68.7	75.1
Borrowings	343.7	125.5	64.5	152.0	152.0
Others	1.0	-	-	-	-
Total current liabilities	**412.7**	**195.7**	**133.2**	**220.7**	**227.2**
Borrowings	783.8	949.2	970.2	888.1	893.1
Others	50.0	58.8	60.5	60.5	60.5
Total non-current liabilities	**834**	**1,008**	**1,031**	**949**	**954**
Total Liabilities	**1,246**	**1,204**	**1,164**	**1,169**	**1,181**
Net assets	**2,029**	**2,312**	**2,390**	**2,383**	**2,386**
Represented by:					
Unitholders' funds	**2,029**	**2,308**	**2,386**	**2,380**	**2,382**
Hedging reserve	(0.4)	4.2	3.8	3.8	3.8

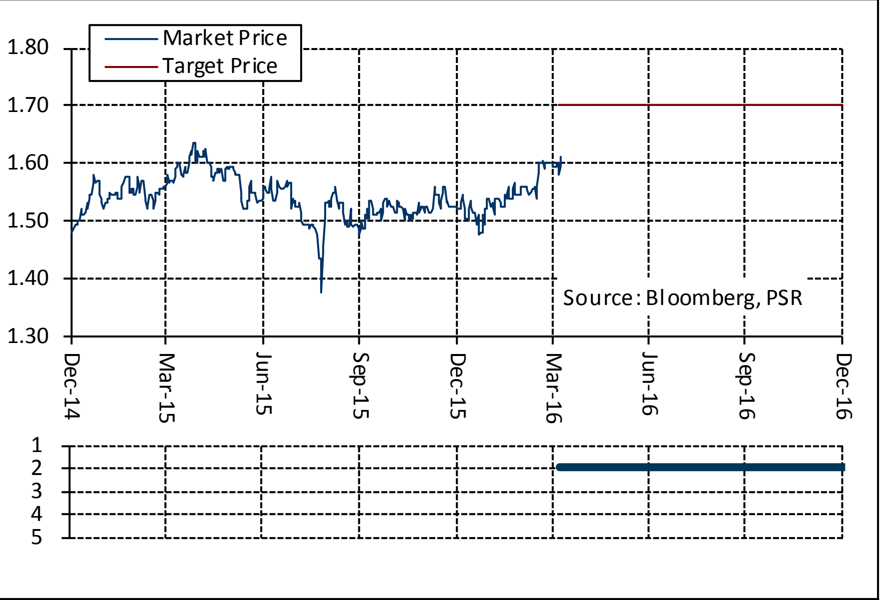
Valuation Ratios

Y/E Mar	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	1.17	1.21	1.20	1.22	1.22
P/DPU (x)	0.14	0.15	0.15	0.15	0.14
Distribution Yield (%)	7.04	6.54	6.86	6.66	7.16
NPI yield (%)	7.10	6.93	7.08	6.93	7.36
Growth & Margins (%)					
Growth					
Revenue	8.3%	4.9%	5.1%	0.4%	7.2%
Net property income (NPI)	9.9%	6.5%	6.7%	-1.0%	7.3%
Distributable income	10.0%	8.9%	6.4%	-1.6%	7.8%
DPU	7.4%	5.1%	6.0%	-2.9%	7.5%
Margins					
NPI margin	71.8%	72.8%	74.0%	72.9%	73.0%
Key Ratios					
Net Debt or (Net Cash)	1,032	1,003	959	1,012	1,028
Gearing (%)	34.4%	30.6%	29.1%	29.3%	29.3%

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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 stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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