

Mapletree Industrial Trust

Hi-Tech Buildings driving growth

SINGAPORE | REAL ESTATE (REIT) | 1Q17 RESULTS

26 April 2017

- 4Q gross revenue and DPU in line with our forecast
- FY17 gross revenue in line with our forecast and consensus expectation
- FY17 DPU in line with our forecast, and exceeded consensus expectation by 3.5%
- Portfolio weighted average rental reversion of -0.2% for the quarter

Results at a glance

(SGD mn)	FY17	FY16	yoy (%)	Comments
Gross revenue	340.6	331.6	↑2.7	Higher rental rates across all property segments, higher occupancies at Hi-Tech Buildings and contribution from Phase One of HP BTS
Net property income	256.8	245.1	↑4.8	3.2% lower property operating expenses
Distributable income	205.0	197.8	↑3.6	Higher manager's management fees and borrowing costs
DPU (cents)	11.39	11.15	↑2.2	1.8% larger weighted average Unitholder base

Source: Company, Phillip Securities Research (Singapore)

Leasing update on early-termination of J&J at The Strategy

As disclosed in the previous quarter, Johnson & Johnson (J&J) had confirmed it would be terminating its lease on September 30, 2017 (nine months early). The manager has not secured a tenant with a large space requirement to fill the vacancy. The S\$3.1 million compensation for the early-termination covers only six months of rent. The manager is not optimistic of fully leasing out all of the space by 2018, even by various smaller tenants. The vacant space accounts for 28% of net leasable area (NLA) of The Strategy and 2.2% of portfolio gross rental income (GRI).

Outlook for the portfolio is stable; 28.2% of leases expiring in FY18

While the 28.2% level of expiries for FY18 is higher than subsequent years, there are no concentrated exposures, according to the manager. Weighted average lease expiry (WALE) of the portfolio has shortened quarter-on-quarter (q-o-q) to 3.1 years by GRI; and portfolio occupancy has improved q-o-q to 93.1% from 92.1%. There was some weakness in the Stack-up/Ramp-up Buildings and Light Industrial Buildings segments in terms of tenant retention, resulting in lower q-o-q occupancy. The manager shared that the tenants left mainly due to consolidation of operations elsewhere or downsizing of operations. We believe this is a reflection of industrialists managing their cost.

Data centre BTS to boost portfolio in High-Tech Buildings segment

The recently announced six-storey data centre build to suit (BTS) project will be developed at a cost of S\$60 million. There is sufficient debt facilities and headroom for the project to be fully funded by debt, making it accretive. The project is expected to be completed in 2H CY2018. We do not see the project contributing materially to the portfolio that is now valued at S\$3.7 billion. The GRI contribution only adds on ~1% to FY19e, by our estimates.

30A Kallang Place AEI on track for completion in 1Q CY2018

As with the previous quarter, there has not been any pre-commitments, save for a childcare centre to serve as an amenity for the other tenants of the development. We have started to include a GRI forecast into our model, starting with 50% occupancy in 1QFY19 and ramping up to full occupancy by the end of FY19.

Downgrade to "Neutral" with higher target price of S\$1.80 (previous: \$1.74)

At 29.2% gearing, Mapletree Industrial Trust (MINT) has one of the lowest gearing within the S-REIT universe. Our target price represents an implied 1.3x FY18e P/NAV multiple. We believe the growth potential has already been adequately priced-in, resulting in our "Neutral" rating. However, long-term growth remains intact and investors should look to accumulate on temporary price weakness.

Neutral (Downgraded)

LAST CLOSE PRICE	SGD 1.820
FORECAST DIV	SGD 0.114
TARGET PRICE	SGD 1.800
TOTAL RETURN	5.2%

COMPANY DATA

O/S SHARES (MN) :	1802
MARKET CAP (USD mn / SGD mn) :	2308 / 3217
52 - WK HI/LO (SGD) :	182 / 154
3M Average Daily T/O (mn) :	2.48

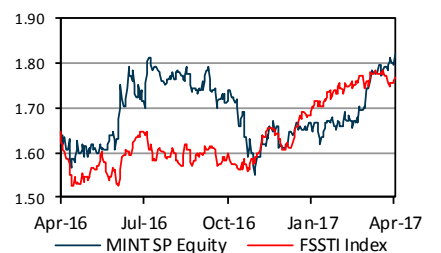
MAJOR SHAREHOLDERS (%)

MAPLETREE INVESTMENTS PTE LTD	34.2%
SCHRODERS PLC	7.0%
AIA GROUP LTD	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	6.2	10.0	17.7
STI RETURN	(0.6)	4.8	10.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18 e	FY 19 e
Gross Rev. (SGD mn)	331.6	340.6	353.8	369.5
NPI (SGD mn)	245.1	256.8	260.5	277.2
Dist. Inc. (SGD mn)	197.8	205.0	203.7	216.6
P/NAV (x)	1.8	1.27	1.30	1.30
DPU, adj (cents)	11.15	11.39	11.29	12.00
Distribution Yield (%)	6.90	6.36	6.20	6.59

Source: Company Data, PSR est.

VALUATION METHOD

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

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Results at a glance

(SGD mn)	4Q17	4Q16	yoy (%)	Comments
Gross revenue	87.8	84.0	↑4.5	Higher rental rates across Flatted Factories, Hi-Tech Buildings and Stack-up/Ramp-up Buildings, contribution from Phase One of HP BTS from mid-December 2016; offset by lower portfolio occupancy
Net property income	66.0	62.0	↑6.4	0.6% lower property operating expenses
Distributable income	51.8	50.4	↑2.7	Higher manager's management fees and borrowing costs
DPU (cents)	2.88	2.81	↑2.5	0.7% larger Unitholder base

Source: Company, Phillip Securities Research (Singapore)

Relative valuation

MINT is trading above the peer average P/NAV multiple and at a lower 12M-trailing yield than the peer average.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,412	2.57	1.2	7.0
Mapletree Industrial Trust	3,280	1.820	1.3	6.2
AIMS AMP Capital Industrial REIT	894	1.400	0.9	8.0
Viva Industrial Trust	757	0.785	1.0	8.9
Cambridge Industrial Trust	750	0.575	0.9	7.3
Soilbuild Business Space REIT	695	0.665	0.9	9.0
Sabana Shari'ah Compliant REIT	484	0.460	0.6	9.1
Average			1.0	7.9

Source: Bloomberg (Updated: 25 April 2017)

Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross revenue	314	332	341	354	370
Property expenses	(85)	(86)	(84)	(93)	(92)
Net property income	229	245	257	261	277
Net Finance (Expense)/Inc.	(24)	(26)	(27)	(31)	(34)
Manager's fees	(25)	(27)	(28)	(28)	(29)
Other items	(2.3)	(2.3)	(1.9)	(2.5)	(2.5)
Exceptional items	-	-	-	-	-
Net income	178	191	200	198	211
FV change, Invmnt. properties	197	82	70	-	-
Total Return Before Tax	375	273	271	198	211
Taxation	(1.1)	-	-	-	-
Total Return After Tax	374	273	271	198	211
Distribution adjustments	(194)	(75)	(66)	5	5
Income available for distribution	181	198	205	204	217

Per share data

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
NAV (\$\$)	1.32	1.37	1.41	1.40	1.40
EPU (cents)	21.82	15.40	15.02	10.99	11.72
DPU (cents)	10.43	11.15	11.39	11.29	12.00

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

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Total return	374	273	271	198	211
Adjustments	(175)	(53)	(42)	33	36
WC changes	7.1	0.0	5.4	(18.0)	9.3
Cash generated from ops	207	219	234	214	257
Others	(1.7)	0.4	0.4	0.2	0.1
Cashflow from ops	205	220	234	214	257
CFI					
CAPEX, net	(34)	(36)	(81)	(114)	(20)
Purchase of Inv. Propty.	(20)	(8)	(23)	-	-
Others	-	-	-	-	-
Cashflow from investments	(54)	(44)	(104)	(114)	(20)
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(54)	(55)	85	114	20
Dividends	(97)	(115)	(204)	(203)	(212)
Others	(22)	(25)	(28)	(32)	(34)
Cashflow from financing	(174)	(194)	(147)	(121)	(227)
Net change in cash	(24)	(18)	(16)	(21)	10
Ending cash	72	54	38	17	27

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	3,267	3,338	3,531	3,823	3,883
Inv. Propty. Under Devmnt.	157	220	218	40	-
PPE	0.001	0.002	0.003	0.003	0.003
Others	3.61	0.34	-	-	-
Total non-current assets	3,428	3,558	3,749	3,863	3,883
Cash	72	54	38	17	27
Trade receivables	13	9	10	12	11
Others	2.9	2.2	1.2	1.2	1.2
Total current assets	88	66	49	30	40
Total Assets	3,516	3,624	3,798	3,893	3,923
LIABILITIES					
Trade payables	70	80	109	92	101
Borrowings	125	47	115	185	335
Others	-	-	-	-	-
Total current liabilities	196	127	224	277	436
Borrowings	949	974	991	1,035	905
Others	59	58	50	50	50
Total non-current liabilities	1,008	1,032	1,042	1,086	956
Total Liabilities	1,204	1,159	1,265	1,363	1,392
Net assets	2,312	2,465	2,533	2,530	2,531
Represented by:					
Unitholders' funds	2,308	2,465	2,533	2,530	2,531
Hedging reserve	4.2	-	-	-	-

Valuation Ratios

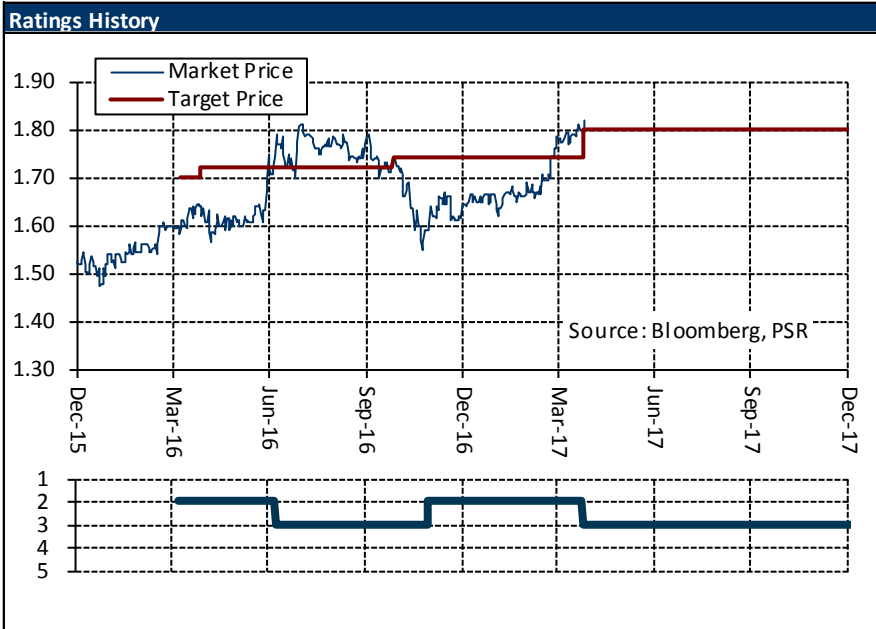
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/NAV (x)	1.2	1.2	1.3	1.3	1.3
P/DPU (x)	15.3	14.5	15.7	16.1	15.2
Distribution Yield (%)	6.5	6.9	6.4	6.2	6.6
NPI yield (%)	6.9	7.0	7.0	6.8	7.2

Growth & Margins (%)

Growth					
Revenue	4.9%	5.6%	2.7%	3.9%	4.4%
Net property income (NPI)	6.5%	7.2%	4.8%	1.4%	6.4%
Distributable income	8.9%	9.4%	3.6%	-0.6%	6.3%
DPU	5.1%	6.9%	2.2%	-0.9%	6.3%
Margins					
NPI margin	72.8%	73.9%	75.4%	73.6%	75.0%

Key Ratios

Net Debt or (Net Cash)	1,003	967	1,068	1,203	1,213
Gearing (%)	30.6%	28.2%	29.1%	31.4%	31.6%



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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