

# Mapletree Industrial Trust

Establishing data centre foothold in USA



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## SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

27 October 2017

- Headline gross revenue includes S\$3.1 mn pre-termination compensation from J&J. Underlying recurring gross revenue was in with expectation.
- DPU boost due to above effect. Underlying recurring DPU of 2.83 cents was in line.
- 60:40 JV between MIPL and MINT to acquire 14 data centres in the USA at ~7% NPI yield. Advanced distribution of 0.97 – 1.01 cents, due to ongoing Private Placement to partially fund the acquisitions.
- Previous target price achieved and catalyst priced-in; downgrade to Neutral.

### Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
<b>Gross revenue</b>	<b>92.6</b>	<b>84.2</b>	<b>9.9%</b>	<b>Contribution from HP build-to-suit and pre-termination compensation received from J&amp;J</b>
Net property income	70.7	63.6	11.1%	6.4% higher property operating expenses; mainly from marketing commission, property maintenance expenses and property taxes
Distributable income	54.0	50.6	6.8%	16.8% higher trust expenses; mainly from higher borrowing costs and manager's fees
<b>DPU (cents)</b>	<b>3.00</b>	<b>2.83</b>	<b>6.0%</b>	<b>In line with higher DI; 0.17 cent boost from pre-termination compensation</b>

Source: Company, PSR

### The positives

- 60:40 JV between Mapletree Investments Pte Ltd (MIPL) and Mapletree Industrial Trust (MINT): The JV will acquire a US\$750 mn (S\$1.02 bn) portfolio of 14 data centres in the USA at a 3.4% discount to valuation. The manager estimates the proposed acquisition will be 0.26 cents DPU accretive on a pro forma basis. Our FY19e DPU estimate is 0.09 cents higher than previous. (Key takeaways in Appendix 1.)
- Organic growth driven by Hewlett-Packard (HP) build-to-suit (BTS) at Depot Close: Both Phase One and Phase Two are now income producing. The QoQ lower occupancy for Hi-Tech Buildings is a mathematical effect of the lag between obtaining TOP and occupation.
- Portfolio weighted average rental reversion of +2.8%: Driven by renewal of a data centre tenant in the Hi-Tech Buildings segment and the Flatted Factories segment. However, negative reversions of up to -1.8% was seen in the rest of the portfolio.

### The negatives

- Drag from Johnson & Johnson (J&J) pre-termination: While the S\$3.1 mn pre-termination compensation will be paid out in full and provide a boost to 2Q FY18 DPU, the vacated space (28% of NLA at The Strategy) has only been 15% back-filled.
- Marginally lower QoQ occupancy from 92.6% to 90.4%: Mainly due to lower occupancies in all segments except Light Industrial Buildings segment, which secured some smaller new tenants.

### Outlook

The outlook is stable. The USA expansion into data centres provides access to a burgeoning asset class that offsets the limited prospects in Singapore industrial space. The trade-offs however are: higher cost of onshore USD debt compared to SGD debt; and US withholding tax that is 10%-15% of NPI.

### Downgrade to Neutral; slightly higher target price of \$1.99 (previously \$1.98)

We incorporate the effects of the JV with MIPL into our model. With the acquisition of the target portfolio, our target price moves up only slightly due to the effects of higher interest expense from additional S\$30.7 mn debt at the Trust level, and 3.8% larger unit base from the Private Placement. Our target price represents an implied 1.37x FY18e P/NAV multiple.

## Neutral (Downgrade)

LAST CLOSE PRICE	SGD 1.970
FORECAST DIV	SGD 0.114
TARGET PRICE	SGD 1.990
<b>TOTAL RETURN</b>	<b>6.8%</b>

### COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1803
MARKET CAP (USD mn / SGD mn):	2603 / 3542
52 - WK HI/LO (SGD):	2 / 154
3M Average Daily T/O (mn):	3.09

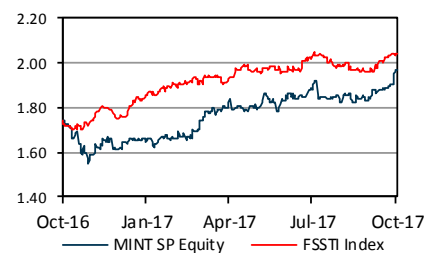
### MAJOR SHAREHOLDERS (%)

MAPLE TREE INVESTMENTS PTE LTD	34.3%
SCHRODERS PLC	7.8%
AIA GROUP LTD	5.0%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.8	6.4	20.8
STI RETURN	4.0	17	211

### 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)	332	341	359	373
NPI (SGD mn)	245	257	273	281
Dist. Inc. (SGD mn)	98	205	214	229
P/E (x)	10.5	119	17.0	16.2
P/NAV (x)	1.8	127	136	139
DPU, adj (cents)	11.15	1139	1164	12.23
Distribution Yield (%)	6.9	6.4	5.9	6.2

Source: Company Data, PSR est.

### VALUATION METHOD

DDM (Cost of Equity: 7.5%; Terminal g: 15%)

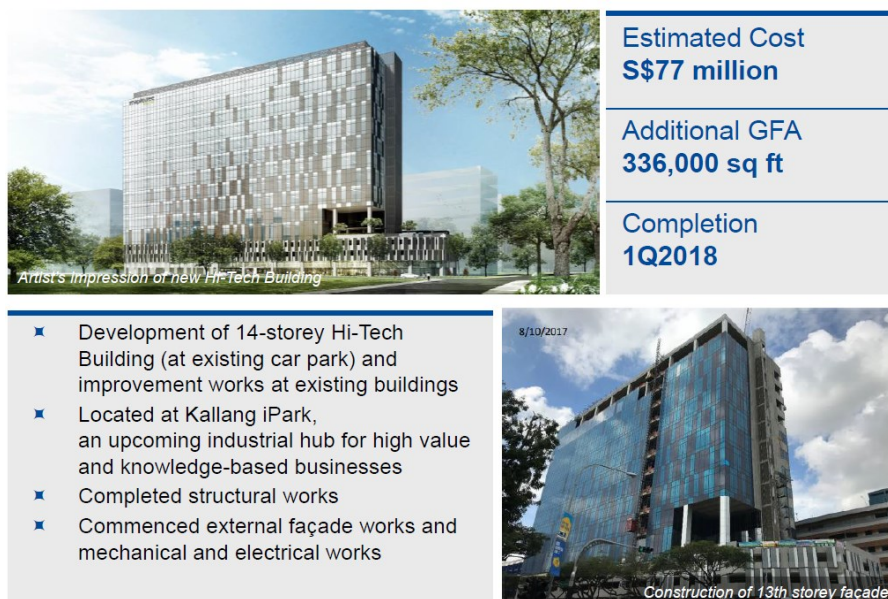
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**Update to 30A Kallang Place and Kallang Basin 4 Cluster AEI**

The asset enhancement initiative (AEI) remains on track for completion in 1Q 2018. The structural works have been completed and external façade works and mechanical and electrical works have commenced. Pre-commitment level remains unchanged from the previous quarter – a child care centre taking up about 3% of the space.

**Figure 1: AEI – 30A Kallang Place and Kallang Basin 4 Cluster**



Source: Company 2QFY17/18 Financial Results Presentation, 24 October 2017

**Update to New Data Centre BTS**

The build to suit (BTS) project remains on track for completion in 2H 2018. The construction of the pile caps and first storey slab have been completed.

**Figure 2: BTS Project – New Data Centre**



Source: Company 2QFY17/18 Financial Results Presentation, 24 October 2017

### 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.)

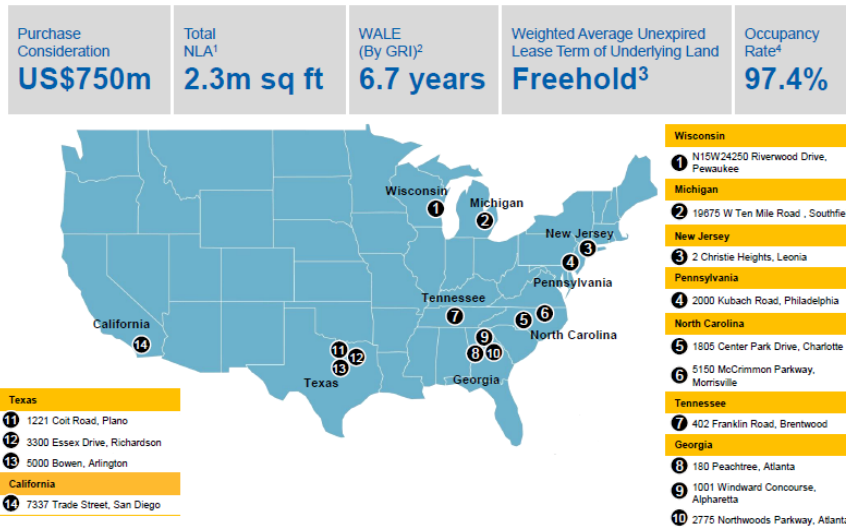
	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,907	2.74	1.32	5.7
Mapletree Industrial Trust	3,542	1.965	1.40	5.8
Viva Industrial Trust	922	0.950	1.20	7.6
AIMS AMP Capital Industrial REIT	915	1.430	1.03	7.5
ESR-REIT	733	0.560	0.89	6.9
Soilbuild Business Space REIT	709	0.675	0.95	8.7
Sabana Shari'ah Compliant REIT	495	0.470	0.82	7.7
<b>Average</b>			<b>1.09</b>	<b>7.2</b>

Source: Bloomberg (Updated: 26 October 2017), PSR

**Appendix 1: Key takeaways on the acquisition of portfolio of 14 data centres in the USA**

- **Access to a diversified platform:** The target portfolio is geographically diversified across the USA, but mostly around the South and East. The properties are mostly (90.6%) shell-and-core and all tenants are on triple net leases; this mitigates operational risks/expenses for MINT. The target portfolio's occupancy is 97.4%.

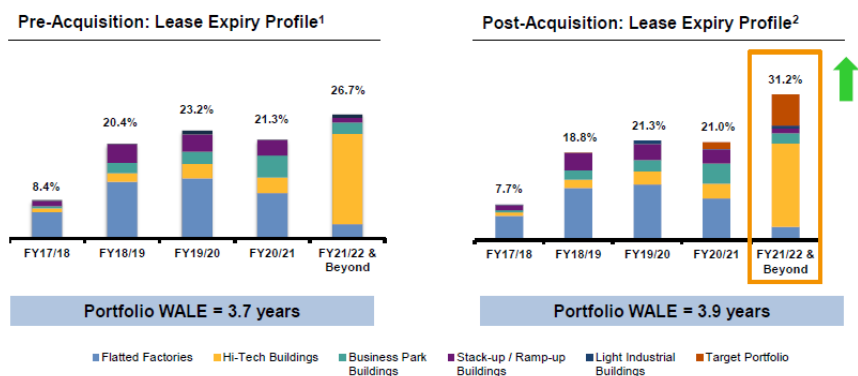
Figure 3: 14 Data Centres Across 9 States in the USA



Source: Company Presentation, 24 October 2017

- **Increasing exposure to a burgeoning asset class and lengthening overall WALE:** Drivers for data centre growth include data creation/storage, and Internet of Things. Demand for data centre is expected to grow at a CAGR of 5.3% between 2015 and 2020. The target portfolio's WALE (by GRI) stand at 6.7 years and would lengthen MINT's overall portfolio WALE to 3.9 years on a pro forma basis with annual rental escalations.

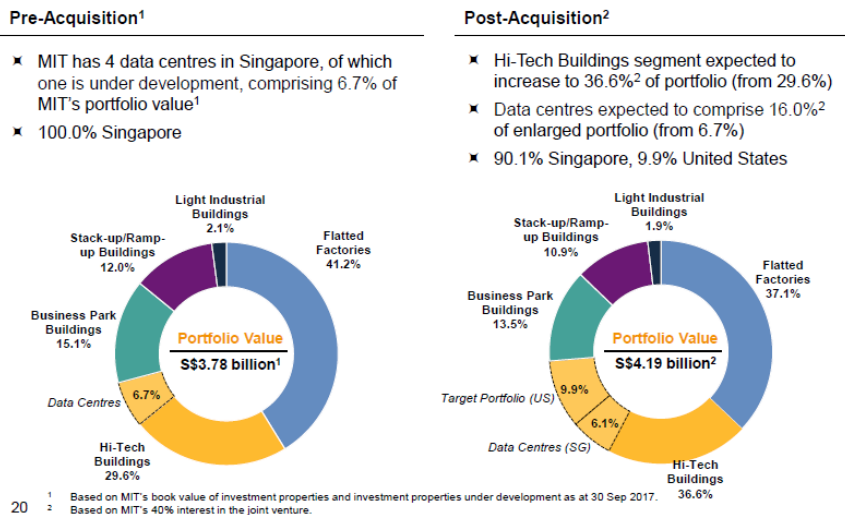
Figure 4: Strengthening the portfolio lease expiry profile  
*Enhances Income Stability and Provides Organic Growth*



Source: Company Presentation, 24 October 2017

- **JV has been structured to give a reasonable level of exposure:** The manager explained that the 60:40 proportion was driven by a "measured approach" to give MINT just under 10% of overseas exposure. Recall in the recent announcement to the Expansion of Investment Strategy, MINT will limit its overseas data centre exposure to 20% of portfolio value. MINT will also have the Right of First Refusal (ROFR) over the target properties. Lastly, MINT will launch a Private Placement to raise no less than S\$125 mn through 68.307 mn new units to partially fund the acquisition. The balance will be funded by debt: MINT will take on additional US\$30.7 mn (S\$41.8) debt at the Trust level, and US\$184 mn (~\$250.2) within the JV structure. MINT's pro forma aggregate leverage is expected to rise to 34.0% from 30% as at 30 September 2017.

**Figure 5: Target portfolio is 9.9% of total portfolio value**  
*In Line with Expansion of Investment Strategy to Acquire Data Centres Worldwide Beyond Singapore*

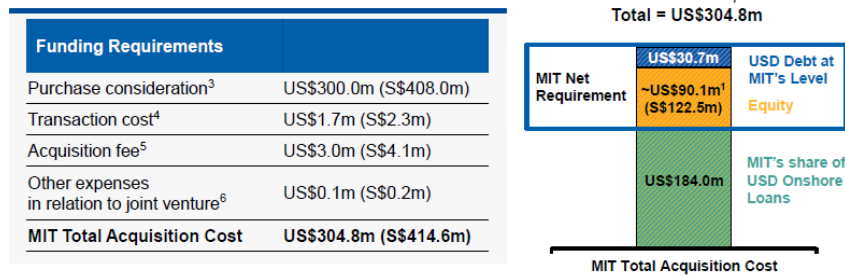


Source: Company Presentation, 24 October 2017

**Figure 6: Financing by equity, debt at the Trust level and debt at the JV level**

- Acquisition to be funded by a combination of debt and equity
- Private placement of new units to institutional and other investors: ~US\$90.1m<sup>1</sup> (S\$122.5m) (~29.6% of MIT Total Acquisition Cost)
  - Bank borrowings: US\$214.7m (S\$292.0m) (~70.4% of MIT Total Acquisition Cost)

Post-acquisition, MIT's pro forma aggregate leverage is expected to increase to 34.0%<sup>2</sup> from 30.0% as at 30 Sep 2017



<sup>1</sup> Assumed the launch of private placement to raise gross proceeds of no less than approximately S\$125.0 million, which is net of transaction cost. This assumed the issue of approximately 87,600,000 New Units at an Illustrative Issue Price of S\$1.85 per New Unit pursuant to the private placement.  
<sup>2</sup> Assumed proceeds from the private placement is used to partly fund the Proposed Acquisition. In accordance with Property Funds Guidelines: the aggregate leverage ratio includes proportionate share of borrowings of the joint venture and deposited property values.  
<sup>3</sup> Based on MIT's 40% interest in the joint venture.  
<sup>4</sup> Refers to cost incurred by the joint venture, which MIT will bear 40%.  
<sup>5</sup> 1.0% of MIT's proportionate share of the purchase consideration.  
<sup>6</sup> Refers to other expenses in connection with MIT's investment in the joint venture.

Source: Company Presentation, 24 October 2017

## Financials

### Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross revenue</b>	<b>314</b>	<b>332</b>	<b>341</b>	<b>359</b>	<b>373</b>
Property expenses	(85)	(86)	(84)	(86)	(92)
<b>Net property income</b>	<b>229</b>	<b>245</b>	<b>257</b>	<b>273</b>	<b>281</b>
Net Finance (Expense)/Inc.	(24)	(26)	(27)	(33)	(35)
Manager's fees	(25)	(27)	(28)	(29)	(29)
Other items	(2.3)	(2.3)	(1.9)	(2.5)	(2.6)
Share of profit from JV	-	-	-	4	13
Exceptional items	-	-	-	-	-
<b>Net income</b>	<b>178</b>	<b>191</b>	<b>200</b>	<b>212</b>	<b>227</b>
FV change, Invmnt. properties	197	82	70	-	-
<b>Total Return Before Tax</b>	<b>375</b>	<b>273</b>	<b>271</b>	<b>212</b>	<b>227</b>
Taxation	(1.1)	-	-	-	-
<b>Total Return After Tax</b>	<b>374</b>	<b>273</b>	<b>271</b>	<b>212</b>	<b>227</b>
Distribution adjustments	(194)	(75)	(66)	2	2
<b>Income available for distribution</b>	<b>181</b>	<b>198</b>	<b>205</b>	<b>214</b>	<b>229</b>

### Per share data

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
NAV (\$\$)	1.32	1.37	1.41	1.45	1.42
EPU (cents)	21.82	15.40	15.02	11.57	12.13
DPU (cents)	10.43	11.15	11.39	11.64	12.23

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

### Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Total return	374	273	271	212	227
Adjustments	(175)	(53)	(42)	31	24
WC changes	7.1	0.0	5.4	(17.5)	9.8
Cash generated from ops	207	219	234	226	261
Others	(1.7)	0.4	0.4	0.2	0.2
<b>Cashflow from ops</b>	<b>205</b>	<b>220</b>	<b>234</b>	<b>226</b>	<b>261</b>
<b>CFI</b>					
CAPEX, net	(34)	(36)	(81)	(114)	(37)
Purchase of Inv. Propty.	(20)	(8)	(23)	18	-
Others	-	-	-	(164)	13
<b>Cashflow from investments</b>	<b>(54)</b>	<b>(44)</b>	<b>(104)</b>	<b>(260)</b>	<b>(24)</b>
<b>CFF</b>					
Share issuance, net	-	-	-	125	-
Loans, net of repayments	(54)	(55)	85	136	40
Dividends	(97)	(115)	(204)	(211)	(225)
Others	(22)	(25)	(28)	(33)	(35)
<b>Cashflow from financing</b>	<b>(174)</b>	<b>(194)</b>	<b>(147)</b>	<b>17</b>	<b>(220)</b>
<b>Net change in cash</b>	<b>(24)</b>	<b>(18)</b>	<b>(16)</b>	<b>(17)</b>	<b>17</b>
<b>Ending cash</b>	<b>72</b>	<b>54</b>	<b>38</b>	<b>21</b>	<b>38</b>

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
<b>ASSETS</b>					
Investment properties	3,267	3,338	3,531	3,805	3,882
Inv. Propty. Under Devmnt.	157	220	218	40	-
Joint Venture	-	-	-	168	168
PPE	0.001	0.002	0.003	0.003	0.003
Others	3.61	0.34	-	-	-
<b>Total non-current assets</b>	<b>3,428</b>	<b>3,558</b>	<b>3,749</b>	<b>4,013</b>	<b>4,050</b>
Cash	72	54	38	21	38
Trade receivables	13	9	10	12	11
Others	2.9	2.2	1.2	1.2	1.2
<b>Total current assets</b>	<b>88</b>	<b>66</b>	<b>49</b>	<b>34</b>	<b>50</b>
<b>Total Assets</b>	<b>3,516</b>	<b>3,624</b>	<b>3,798</b>	<b>4,047</b>	<b>4,100</b>
<b>LIABILITIES</b>					
Trade payables	70	80	109	93	102
Borrowings	125	47	115	185	335
Others	-	-	-	-	-
<b>Total current liabilities</b>	<b>196</b>	<b>127</b>	<b>224</b>	<b>278</b>	<b>437</b>
Borrowings	949	974	991	1,057	947
Others	59	58	50	50	50
<b>Total non-current liabilities</b>	<b>1,008</b>	<b>1,032</b>	<b>1,042</b>	<b>1,107</b>	<b>997</b>
<b>Total Liabilities</b>	<b>1,204</b>	<b>1,159</b>	<b>1,265</b>	<b>1,385</b>	<b>1,434</b>
<b>Net assets</b>	<b>2,312</b>	<b>2,465</b>	<b>2,533</b>	<b>2,661</b>	<b>2,666</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>2,308</b>	<b>2,465</b>	<b>2,533</b>	<b>2,661</b>	<b>2,666</b>
Hedging reserve	4.2	-	-	-	-

### Valuation Ratios

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/NAV (x)	1.2	1.2	1.3	1.4	1.4
P/DPU (x)	15.3	14.5	15.7	16.9	16.1
Distribution Yield (%)	6.5	6.9	6.4	5.9	6.2
NPI yield (%)	6.9	7.0	7.0	7.2	7.3

### Growth & Margins (%)

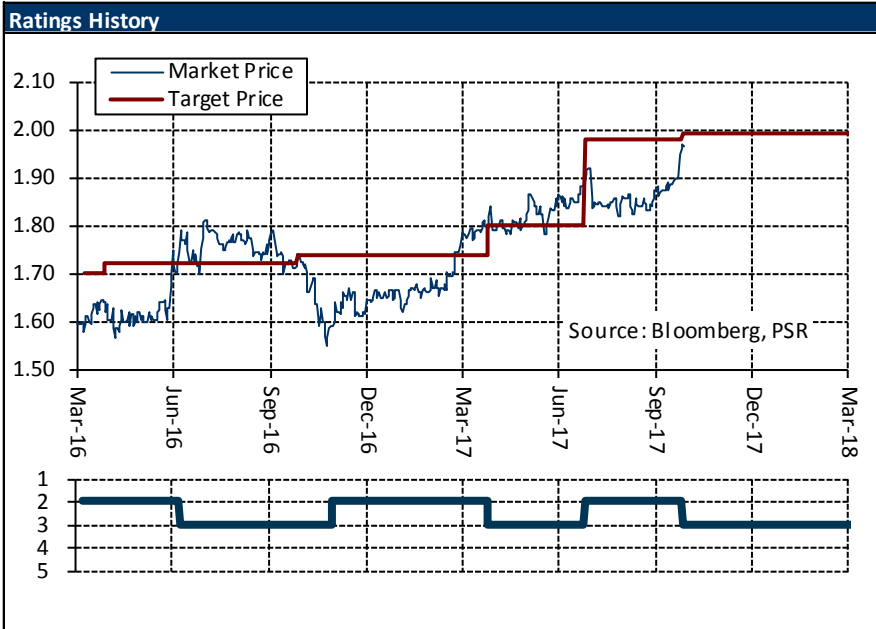
<b>Growth</b>					
Revenue	4.9%	5.6%	2.7%	5.4%	4.1%
Net property income (NPI)	6.5%	7.2%	4.8%	6.2%	3.1%
Distributable income	8.9%	9.4%	3.6%	4.4%	7.1%
DPU	5.1%	6.9%	2.2%	2.2%	5.1%

### Margins

NPI margin	72.8%	73.9%	75.4%	76.0%	75.3%
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### Key Ratios

Net Debt or (Net Cash)	1,003	967	1,068	1,221	1,244
Gearing (%)	30.6%	28.2%	29.1%	30.7%	31.3%



### 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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