

Mapletree Industrial Trust

Portfolio of stability and diversification



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SINGAPORE | REAL ESTATE (REIT) | FY18 RESULTS

25 April 2018

- Gross revenue and DPU in line with our forecast
- Full quarter contribution from JV of 14 US data centres in 4Q FY17/18
- Maintain Neutral; lower target price of \$2.09 (previously \$2.15)

Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Gross revenue	363	341	6.7%	Contribution from HP BTS and one-off pre-termination compensation from Johnson & Johnson; partially offset by lower occupancy
Net property income	278	257	8.1%	2.3% higher property operating expenses
Share of profit from JV	21.8	-	N.M.	\$3.9mn PAT and \$17.9mn fair value gains
Distributable income	216	205	5.3%	
DPU (cents)	11.75	11.39	3.2%	1.9% larger weighted average unit base

Source: Company, PSR

The Positives

- Portfolio value remains stable, with slight tightening of capitalisation rates.** Tighter capitalisation rates seen for Flatted Factories, Hi-Tech Buildings and Stack-up/Ramp-up Buildings. Capitalisation rate for Business Park Buildings remained unchanged while that of Light Industrial Buildings widened.
- Gearing remains relatively low at 33.1%.** This affords a debt headroom of ~\$340mn by our estimate, potentially growing the AUM by ~8%. Average debt maturity has improved from 3.0 years to 3.3 years. However, interest cost is expected to creep up.
- Total WALE of 3.8 years, boosted by US portfolio that has a WALE of 6.0 years.** There are no leases in the US portfolio that are expiring within the next two years, while 18% of the total portfolio by GRI is due for renewal in FY18/19.
- 30A Kallang Place achieved 40% committed occupancy.** The AEI was recently completed and the property received its TOP in February 2018. New tenants are mainly from the technology sector. The manager expects six to nine months of ramp-up and targets 90% occupancy by the end of 2018.

The Negatives

- Portfolio weighted average rental reversion of -2.2%.** Rental reversions were negative for all segments except Hi-Tech Buildings. Average rent for six new leases at Business Park Buildings was 18% below the average passing rent. A contributor to this was the lower rent that the manager had given at The Strategy for a fairly large tenant (20,000 sq ft), in an effort to back-fill space that was vacated by Johnson & Johnson.
- Singapore portfolio occupancy is marginally lower QoQ from 90.1% to 89.6%.** This was driven by lower occupancy from Hi Tech Buildings, as the recently completed 30A Kallang Place was included in the computation. Occupancy at the US portfolio remains unchanged QoQ (with no leases expiring in the next two years).

Outlook

The outlook is stable. Full year contribution from JV platform of US data centres to adequately offset any softness from the Singapore portfolio in the year ahead. The manager expects softer leasing from Flatted Factories, while Business Park Buildings to remain fairly strong.

Maintain Neutral; lower target price of \$2.09 (previously \$2.15)

Estimated yield of ~6% should be stable, but current valuation is rich. Forward P/NAV multiple is now about +2 standard deviations above the historical average, and we are cognisant of the risk of it reverting to mean. Our target price represents an implied 1.48 times FY19e P/NAV multiple.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 2.000
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.090
TOTAL RETURN	10.6%

COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1885
MARKET CAP (USD mn / SGD mn):	2851 / 3770
52 - WK HI/LO (SGD):	2.13 / 1.77
3M Average Daily T/O (mn):	5.62

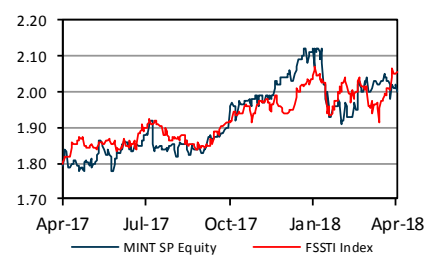
MAJOR SHAREHOLDERS (%)

MAPLE TREE INVESTMENTS PTE LTD	31.4%
SCHRODERS PLC	7.0%
AIA GROUP LTD	4.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	10	(15)	19.3
STI RETURN	4.6	0.0	17.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y / E Mar	FY 17	FY 18	FY 19 e	FY 20 e
Gross Rev. (SGD mn)	341	363	358	361
NPI (SGD mn)	257	278	270	272
Dist. Inc. (SGD mn)	205	216	228	232
P/E (x)	119	12.4	17.4	17.2
P/NAV (x)	127	138	135	135
DPU, adj (cents)	11.39	11.75	12.11	12.28
Distribution Yield (%)	6.3	5.8	6.1	6.1

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.9%; Terminal g: 15%)

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Update to New Data Centre BTS

The manager expects completion to be in July or August this year.

Figure 1: BTS Project – 12 Sunview Drive



Estimated Cost S\$76 million
GFA 242,000 sq ft
Completion 2H2018

- ✦ Development of a six-storey BTS data centre
- ✦ 100% committed by an established data centre operator
- ✦ Initial lease term of >10 years with staggered rental escalations and renewal options
- ✦ Situated on land area of about 96,800 sq ft
- ✦ Site allocated by JTC with zoning for Business 2 use and land tenure of 30 years
- ✦ Located in a specialised industrial park for data centres with ready-built infrastructure
- ✦ Completed structural works and external façade

Source: Company FY17/18 Financial Results Presentation, 23 April 2018

Relative valuation

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

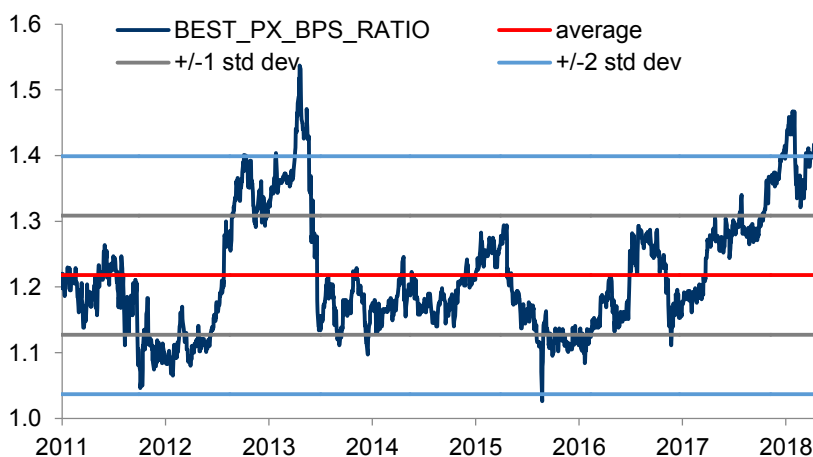
Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,936	2.71	1.31	5.9
Mapletree Industrial Trust	3,808	2.020	1.43	5.8
AIMS AMP Capital Industrial REIT	964	1.410	1.04	5.4
Viva Industrial Trust	876	0.900	1.18	8.1
ESR-REIT	855	0.540	0.79	7.1
Soilbuild Business Space REIT	689	0.655	1.03	8.5
Sabana Shari'ah Compliant REIT	448	0.425	0.78	7.8
Average			1.08	6.9

Source: Bloomberg (Updated: 23 April 2018), PSR

Historical valuation

Figure 2: 12M-forward P/NAV (x) about +2 std dev above historical average



Source: Bloomberg, PSR estimates

Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	332	341	363	358	361
Property expenses	(86)	(84)	(86)	(88)	(89)
Net property income	245	257	278	270	272
Net Finance (Expense)/Inc.	(26)	(27)	(33)	(34)	(33)
Manager's fees	(27)	(28)	(29)	(29)	(29)
Other items	(2.3)	(1.9)	(1.9)	(2.3)	(2.2)
Net income	191	200	214	217	220
Share of profit from JV	-	-	-	13	13
FV change, Invmnt. properties	82	70	65	-	-
Total Return Before Tax	273	271	301	229	232
Taxation	-	-	(0.0)	-	(0.0)
Total Return After Tax	273	271	301	229	232
Distribution adjustments	(75)	(66)	(88)	(1)	(1)
Income available for distribution	198	205	216	228	232

Per share data

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV (\$\$)	1.37	1.41	1.47	1.48	1.48
EPU (cents)	15.40	15.02	16.36	11.48	11.64
DPU (cents)	11.15	11.39	11.75	12.11	12.28

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

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total return	273	271	301	229	232
Adjustments	(53)	(42)	(59)	24	23
WC changes	0.0	5.4	3.2	6.9	4.2
Cash generated from ops	219	234	244	260	260
Others	0.4	0.4	1.2	0.1	0.7
Cashflow from ops	220	234	246	260	260
CFI					
CAPEX, net	(36)	(81)	(98)	(27)	-
Purchase of Inv. Propty.	(8)	(23)	(21)	-	-
Others	-	-	(156)	13	13
Cashflow from investments	(44)	(104)	(274)	(14)	13
CFF					
Share issuance, net	-	-	153	-	-
Loans, net of repayments	(55)	85	120	27	-
Dividends	(115)	(204)	(212)	(226)	(231)
Others	(25)	(28)	(33)	(34)	(34)
Cashflow from financing	(194)	(147)	28	(233)	(266)
Net change in cash	(18)	(16)	(1)	12	8
Ending cash	54	38	37	50	57

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	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	3,338	3,531	3,857	3,935	3,935
Inv. Propty. Under Devmnt.	220	218	52	-	-
Joint Venture	-	-	181	181	181
PPE	0.002	0.003	0.084	0.084	0.084
Others	0.34	-	1.38	1.38	1.38
Total non-current assets	3,558	3,749	4,091	4,118	4,118
Cash	54	38	37	50	57
Trade receivables	9	10	24	15	17
Others	2.2	1.2	1.6	1.6	1.6
Total current assets	66	49	63	66	76
Total Assets	3,624	3,798	4,154	4,184	4,194
LIABILITIES					
Trade payables	80	109	103	101	107
Borrowings	47	115	185	335	335
Others	-	-	0.3	0.3	0.3
Total current liabilities	127	224	288	436	442
Borrowings	974	991	1,033	910	910
Others	58	50	53	53	53
Total non-current liabilities	1,032	1,042	1,086	963	963
Total Liabilities	1,159	1,265	1,374	1,399	1,405
Net assets	2,465	2,533	2,780	2,785	2,789
Represented by:					
Unitholders' funds	2,465	2,533	2,780	2,785	2,789
Hedging reserve	-	-	-	-	-

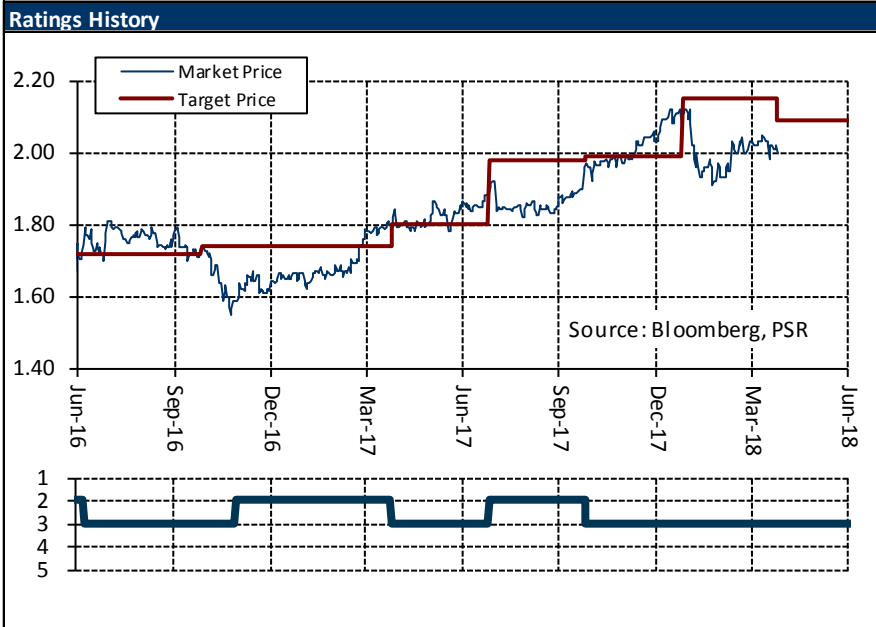
Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	10.5	11.9	12.4	17.4	17.2
P/NAV (x)	1.2	1.3	1.4	1.4	1.4
P/DPU (x)	14.5	15.8	17.2	16.5	16.3
Distribution Yield (%)	6.9	6.3	5.8	6.1	6.1
NPI yield (%)	7.0	7.0	7.3	6.9	6.9

Growth & Margins (%)

Growth					
Revenue	5.6%	2.7%	6.7%	-1.6%	1.1%
Net property income (NPI)	7.2%	4.8%	8.1%	-2.9%	1.0%
Distributable income	9.4%	3.6%	5.3%	5.8%	1.5%
DPU	6.9%	2.2%	3.2%	3.1%	1.4%
Margins					
NPI margin	73.9%	75.4%	76.4%	75.4%	75.3%

Key Ratios					
Net Debt or (Net Cash)	967	1,068	1,181	1,195	1,188
Gearing (%)	28.2%	29.1%	29.3%	29.8%	29.7%



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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