

Mapletree Industrial Trust

Ramping-up in Hi-Tech



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SINGAPORE | REAL ESTATE (REIT) | 1Q19 RESULTS

25 July 2018

- Gross revenue and DPU were within expectations, meeting 25.6% and 24.8% respectively of our FY19 full year estimate
- Acquired 7 Tai Seng Drive on June 27; to be upgraded to Hi-Tech Building
- Build-to-suit data centre at 12 Sunview Drive obtained its TOP on July 13, renamed to Mapletree Sunview 1
- Maintain Neutral; unchanged target price of \$2.09

Results at a glance

| (SGD mn) | 1Q19 | 1Q18 | YoY | Comments |
|-------------------------|------|------|------|---|
| Gross revenue | 91.5 | 88.8 | 3.0% | Contribution from Phase Two of HP build-to-suit and pre-termination compensation sum received from HGST Singapore |
| Net property income | 69.5 | 68.2 | 1.9% | 6.8% higher property operating expenses |
| Share of profit from JV | 4.33 | - | N.M. | US JV started contributing since 3Q18 |
| Distributable income | 56.9 | 52.9 | 7.6% | \$3.2mn distribution declared from JV |
| DPU (cents) | 3.00 | 2.92 | 2.7% | 4.6% larger unit base due to private placement in 3Q18 |

Source: Company, PSR

The Positives

- 35.0% gearing remains relatively low**, compared to the Industrial REITs sub-sector average of 37.4% as at March 31. We estimate a debt headroom of ~\$410mn, potentially growing the AUM by ~10%. However, QoQ borrowing cost has crept up from 2.9% to 3.0%.
- 30A Kallang Place achieved 43.8% committed occupancy**; higher than the 40% in the previous quarter. As a reminder, the asset enhancement initiative was recently completed and the property obtained its Temporary Occupation Permit (TOP) in February 2018. The Manager is in close discussion with potential tenants to secure another 20% commitment.

The Negatives

- Lower occupancy across all segments except Business Park Buildings, resulting in QoQ lower portfolio occupancy from 90.0% to 88.3%**. Business Park Buildings QoQ occupancy was marginally higher from 79.0% to 79.1%, due to one new lease signed. Full quarter effect from 30A Kallang Place being included into the portfolio after obtaining its TOP contributed to lower occupancy for Hi-Tech Buildings.
- Portfolio weighted average negative rental reversion of -3.7%**. This was led by Flatted Factories (-5.2%) and Business Park Buildings (-3.0%). Negative reversions for Flatted Factories and Business Park Buildings was across the portfolio and not due to specific locations, as the manager lowered rates to maintain competitiveness. Back-filling of space at The Strategy at International Business Park that was pre-terminated by Johnson & Johnson remains unchanged from two quarters ago at 23%.

Outlook

The outlook is stable. At the industrial sector level, there are headwinds from vacancies and negative reversions. However, contribution from inorganic sources such as the US data centres JV, 30A Kallang Place and Mapletree Sunview 1 are adequate to offset organic weakness for FY19.

Maintain Neutral; unchanged target price of \$2.09

We fine-tune our assumptions for the contribution from 30A Kallang Way, Mapletree Sunview 1 and include contribution from 7 Tai Seng Drive. Our FY19e/FY20e revenue is now 2.0%/2.9% higher than previous, and DPU is now 0.2%/1.2% higher than previous. Our target price represents an implied 1.42 times FY19e P/NAV multiple.

Neutral (Maintained)

| | |
|------------------|-----------|
| LAST CLOSE PRICE | SGD 2.020 |
| FORECAST DIV | SGD 0.122 |
| TARGET PRICE | SGD 2.090 |
| TOTAL RETURN | 9.5% |

COMPANY DATA

| | |
|-------------------------------|-------------|
| BLOOMBERG CODE: | MINT SP |
| O/S SHARES (MN): | 1886 |
| MARKET CAP (USD mn / SGD mn): | 2790 / 3809 |
| 52 - WK HI/LO (SGD): | 2.13 / 1.82 |
| 3M Average Daily T/O (mn): | 3.27 |

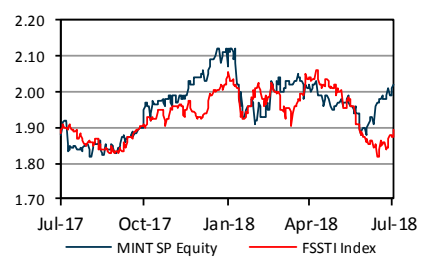
MAJOR SHAREHOLDERS (%)

| | |
|--------------------------------|-------|
| MAPLETTREE INVESTMENTS PTE LTD | 31.4% |
| SCHRODERS PLC | 7.0% |
| AIA GROUP LTD | 4.8% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1Y R |
|------------|-------|-------|------|
| COMPANY | 5.8 | 10 | 13.5 |
| STI RETURN | 0.2 | (6.7) | 2.8 |

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 | 365 | 371 |
| NPI (SGD mn) | 257 | 278 | 276 | 281 |
| Dist. Inc. (SGD mn) | 205 | 216 | 218 | 222 |
| P/E (x) | 119 | 12.4 | 18.5 | 18.2 |
| P/NAV (x) | 127 | 138 | 137 | 137 |
| DPU, adj (cents) | 1139 | 1175 | 1218 | 1245 |
| Distribution Yield (%) | 6.3 | 5.8 | 6.0 | 6.2 |

Source: Company Data, PSR est.

VALUATION METHOD

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

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Appendix

Figure 1: BTS Project – Mapletree Sunview 1



- Completed 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

Source: Company 1Q FY18/19 Financial Results Presentation, 24 July 2018

- The Manager expects revenue to come in by September; there is no rent-free period for this lease

Figure 2: Acquisition and Upgrading – 7 Tai Seng Drive



- Acquisition of a seven-storey property at a purchase consideration of S\$68.0 million and upgrading the property into a Hi-Tech Building
- Upgrading works include increasing power and floor loading capacities and installing additional telecommunication infrastructure
- Land tenure: 30 years + 30 years (from 16 Mar 1993)
- 100% committed by an established information and communication technology company for an initial term of 25 years¹ with annual rental escalations

Source: Company 1Q FY18/19 Financial Results Presentation, 24 July 2018

- Property to be upgraded from warehouse to data centre
- Existing occupancy of 30% as a warehouse
- The Manager expects a yield of between 6% and 7% after conversion
- Comparable transaction within the Tai Seng area have been at \$328 psf, while this acquisition was lower at \$265 psf
- The area has become unsuitable for warehousing and buildings in the area have been converted to higher-specifications
- The apparently higher valuation (compared to S\$31.8mn from Mapletree Logistics Trust) that MINT is paying for came about as the other bidders were bidding on the site with the intention of upgrading the property

Relative valuation

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

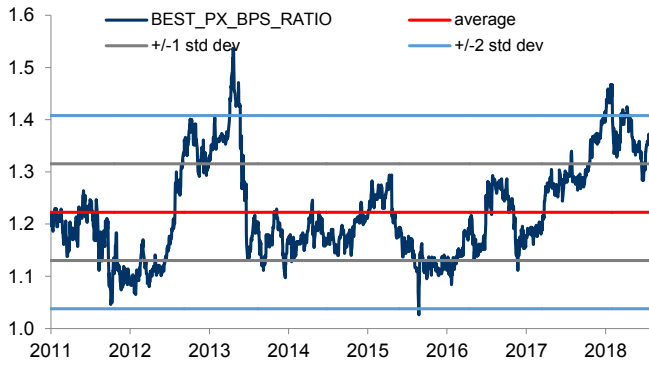
Peer relative data (arranged by Mkt. Cap.)

| | Mkt. Cap. (S\$ mn) | Price (S\$) | Trailing P/NAV (x) | 12M-trailing yield (%) |
|----------------------------------|-----------------------|----------------|-----------------------|---------------------------|
| Ascendas REIT | 8,029 | 2.74 | 1.30 | 5.8 |
| Mapletree Industrial Trust | 3,809 | 2.02 | 1.37 | 5.8 |
| AIMS AMP Capital Industrial REIT | 974 | 1.42 | 1.03 | 7.3 |
| Viva Industrial Trust | 871 | 0.895 | 1.18 | 8.1 |
| ESR-REIT | 824 | 0.520 | 0.76 | 7.1 |
| Soilbuild Business Space REIT | 675 | 0.640 | 1.01 | 8.4 |
| Sabana Shari'ah Compliant REIT | 469 | 0.445 | 0.82 | 7.4 |
| Average | | | 1.07 | 7.1 |

Source: Bloomberg (Updated: 24 July 2018), PSR

Historical valuation

Figure 3: 12M-forward P/NAV (x) more than +1 std. dev. from 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 | 365 | 371 |
| Property expenses | (86) | (84) | (86) | (89) | (90) |
| Net property income | 245 | 257 | 278 | 276 | 281 |
| Net Finance (Expense)/Inc. | (26) | (27) | (33) | (38) | (38) |
| Manager's fees | (27) | (28) | (29) | (30) | (30) |
| Other items | (2.3) | (1.9) | (1.9) | (2.4) | (2.3) |
| Net income | 191 | 200 | 214 | 206 | 210 |
| Share of profit from JV | - | - | 22 | 13 | 13 |
| FV change, Invmnt. properties | 82 | 70 | 65 | - | - |
| Total Return Before Tax | 273 | 271 | 301 | 218 | 223 |
| Taxation | - | - | (0.0) | - | (0.0) |
| Total Return After Tax | 273 | 271 | 301 | 218 | 223 |
| Distribution adjustments | (75) | (66) | (88) | (1) | (0) |
| Income available for distribution | 198 | 205 | 216 | 218 | 222 |

Per share data

| Y/E Mar | FY16 | FY17 | FY18 | FY19e | FY20e |
|-------------|-------|-------|-------|-------|-------|
| NAV (\$\$) | 1.37 | 1.41 | 1.47 | 1.47 | 1.47 |
| EPU (cents) | 15.40 | 15.02 | 16.36 | 10.90 | 11.12 |
| DPU (cents) | 11.15 | 11.39 | 11.75 | 12.18 | 12.45 |

*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 | 218 | 223 |
| Adjustments | (53) | (42) | (59) | 28 | 28 |
| WC changes | 0.0 | 5.4 | 3.2 | 8.7 | 4.8 |
| Cash generated from ops | 219 | 234 | 244 | 255 | 256 |
| Others | 0.4 | 0.4 | 1.2 | 0.1 | 0.5 |
| Cashflow from ops | 220 | 234 | 246 | 255 | 256 |
| CFI | | | | | |
| CAPEX, net | (36) | (81) | (98) | (27) | - |
| Purchase of Inv. Propty. | (8) | (23) | (21) | (97) | (11) |
| Others | - | - | (156) | 13 | 13 |
| Cashflow from investments | (44) | (104) | (274) | (111) | 2 |
| CFF | | | | | |
| Share issuance, net | - | - | 153 | - | - |
| Loans, net of repayments | (55) | 85 | 120 | 121 | - |
| Dividends | (115) | (204) | (212) | (228) | (233) |
| Others | (25) | (28) | (33) | (38) | (39) |
| Cashflow from financing | (194) | (147) | 28 | (146) | (272) |
| Net change in cash | (18) | (16) | (1) | (1) | (14) |
| Ending cash | 54 | 38 | 37 | 36 | 22 |

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 | 4,032 | 4,043 |
| 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 | 4,214 | 4,225 |
| Cash | 54 | 38 | 37 | 36 | 22 |
| Trade receivables | 9 | 10 | 24 | 15 | 17 |
| Others | 2.2 | 1.2 | 1.6 | 1.6 | 1.6 |
| Total current assets | 66 | 49 | 63 | 53 | 41 |
| Total Assets | 3,624 | 3,798 | 4,154 | 4,267 | 4,266 |
| LIABILITIES | | | | | |
| Trade payables | 80 | 109 | 103 | 103 | 109 |
| Borrowings | 47 | 115 | 185 | 249 | 249 |
| Others | - | - | 0.3 | 0.3 | 0.3 |
| Total current liabilities | 127 | 224 | 288 | 351 | 358 |
| Borrowings | 974 | 991 | 1,033 | 1,090 | 1,090 |
| Others | 58 | 50 | 53 | 53 | 53 |
| Total non-current liabilities | 1,032 | 1,042 | 1,086 | 1,143 | 1,143 |
| Total Liabilities | 1,159 | 1,265 | 1,374 | 1,495 | 1,501 |
| Net assets | 2,465 | 2,533 | 2,780 | 2,773 | 2,765 |
| Represented by: | | | | | |
| Unitholders' funds | 2,465 | 2,533 | 2,780 | 2,773 | 2,765 |
| Hedging reserve | - | - | - | - | - |

Valuation Ratios

| Y/E Mar | FY16 | FY17 | FY18 | FY19e | FY20e |
|------------------------|------|------|------|-------|-------|
| P/E (x) | 10.5 | 11.9 | 12.4 | 18.5 | 18.2 |
| P/NAV (x) | 1.2 | 1.3 | 1.4 | 1.4 | 1.4 |
| P/DPU (x) | 14.5 | 15.8 | 17.2 | 16.6 | 16.2 |
| Distribution Yield (%) | 6.9 | 6.3 | 5.8 | 6.0 | 6.2 |
| NPI yield (%) | 7.0 | 7.0 | 7.3 | 7.0 | 7.0 |

Growth & Margins (%)

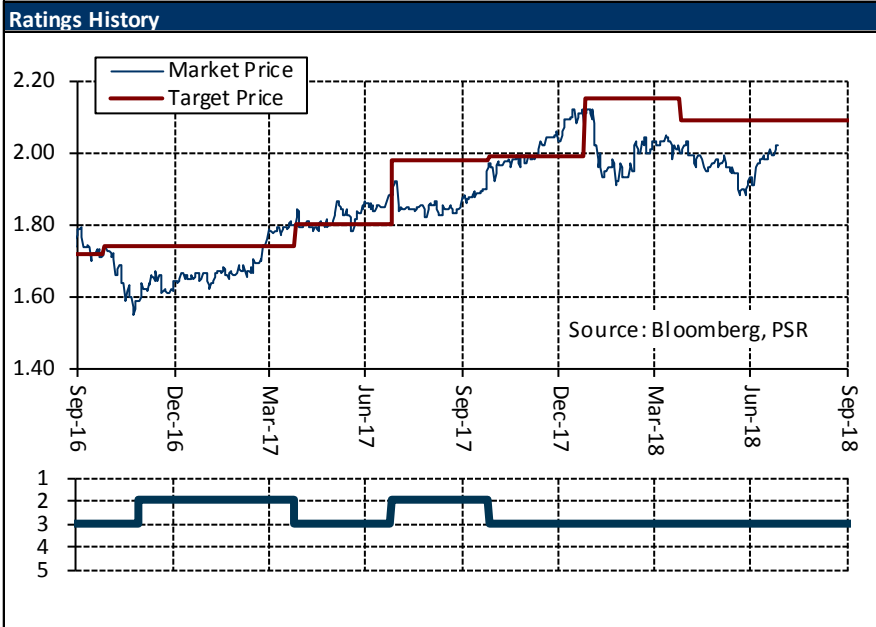
| Growth | | | | | |
|---------------------------|------|------|------|-------|------|
| Revenue | 5.6% | 2.7% | 6.7% | 0.5% | 1.7% |
| Net property income (NPI) | 7.2% | 4.8% | 8.1% | -0.6% | 1.7% |
| Distributable income | 9.4% | 3.6% | 5.3% | 0.8% | 2.1% |
| DPU | 6.9% | 2.2% | 3.2% | 3.7% | 2.2% |

Margins

| | | | | | |
|------------|-------|-------|-------|-------|-------|
| NPI margin | 73.9% | 75.4% | 76.4% | 75.6% | 75.6% |
|------------|-------|-------|-------|-------|-------|

Key Ratios

| | | | | | |
|------------------------|-------|-------|-------|-------|-------|
| Net Debt or (Net Cash) | 967 | 1,068 | 1,181 | 1,303 | 1,317 |
| Gearing (%) | 28.2% | 29.1% | 29.3% | 31.4% | 31.4% |



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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