

Mapletree Industrial Trust

Operational weakness



StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | 2Q19 RESULTS

25 October 2018

- 2Q19 gross revenue and DPU were within our estimates
- Portfolio WALE stands at 3.5 years and aggregate gearing of 35.1%
- Operational rental weakness was mitigated by inorganic contribution
- Resumption of DRP to strengthen balance sheet and fund development projects
- Maintain Neutral; new target price of \$1.99 (previous: \$2.09)

Results at a glance

(SGD mn)	2Q19	2Q18	YoY	Comments
Gross revenue	92.2	92.6	-0.4%	Off-off pre-termination compensation of \$3.1mn from J&J in 2Q18
Net property income	70.6	70.7	-0.1%	1.1% lower property operating expenses
Share of profit from JV	4.60	-	N.M.	US JV started contributing since 3Q18
Distributable income	56.7	54.0	4.9%	2Q19: includes \$3.95mn distribution declared from US JV; 2Q18: includes \$3.1m pre-termination compensation from J&J
DPU (cents)	3.01	3.00	0.3%	4.6% larger unit base due to private placement in 3Q18

Source: Company, PSR

The Positives

- 30A Kallang Place achieved 75% committed occupancy;** higher than the 43.8% 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. Separately, the back-filling of space that was pre-terminated by Johnson & Johnson at The Strategy at International Business Park has improved to 41% from 23% in the previous quarter.

The Negatives

- QoQ lower portfolio occupancy from 88.3% to 86.2%.** This was driven by lower occupancy at Flatted Factories (full quarter effect of HGST departure in 1Q FY18/19 from Kaki Bukit Cluster, who was the ninth largest tenant in MINT's portfolio) and Hi-Tech Buildings segments. The lower occupancy for Hi-Tech Buildings was due to Mapletree Sunview 1 (completed in July, but lease started in August) and 7 Tai Seng Drive (in the process of decanting tenants to undertake upgrading works at the property).
- Fourth consecutive quarter of negative rent reversion.** Weighted average reversion across the portfolio was -3.5%. There were no renewals for Light Industrial Buildings, and all other segments registered negative reversions. Tactical decision was made to lower rents and maintain occupancy.

Outlook

The outlook is mixed. We expect negative reversions to persist into 2019, weighing against organic growth. However, contributions from the US data centres JV, 30A Kallang Place and Mapletree Sunview 1 would result in higher distributable income through inorganic growth.

Maintain Neutral; new target price of \$1.99 (previous \$2.09)

Our lower target price is due to dilutive effect of the distribution reinvestment plan (DRP). To illustrate, our FY20e DPU is lower than FY19e despite the higher distributable income. Valuation is not attractive as MINT currently trades at 1.34 times trailing P/NAV. Limited upside from current price to our target price, which represents an implied 1.34 times FY19e P/NAV multiple.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.950
FORECAST DIV	SGD 0.122
TARGET PRICE	SGD 1.990
TOTAL RETURN	8.3%

COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1887
MARKET CAP (USD mn / SGD mn):	2667 / 3679
52 - WK HI/LO (SGD):	2.13 / 1.85
3M Average Daily T/O (mn):	2.86

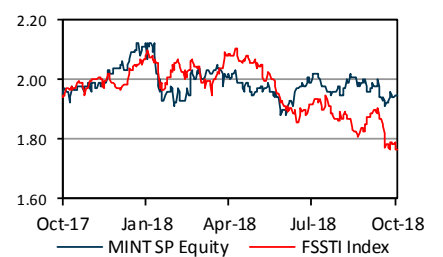
MAJOR SHAREHOLDERS (%)

MAPLETREE INVESTMENTS PTE LTD	31.4%
SCHRODERS PLC	7.0%
AIA GROUP LTD	4.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.5)	(15)	6.1
STI RETURN	(5.7)	(6.5)	(6.1)

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	370
NPI (SGD mn)	257	278	278	279
Dist. Inc. (SGD mn)	205	216	213	221
P/E (x)	119	12.4	18.0	18.3
P/NAV (x)	127	138	131	130
DPU, adj (cents)	1139	1175	1219	1201
Distribution Yield (%)	6.3	5.8	6.3	6.2

Source: Company Data, PSR est.

VALUATION METHOD

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

Richard Leow, CFA, CFE, FRM (+65 6212 1848)

richardleowwt@phillip.com.sg

Appendix

Mechanism for DRP

The distribution reinvestment plan (DRP) offers unitholders the option to receive their distributions either in the form of Units or cash or a combination of both. This allows unitholders to acquire new units without incurring additional transaction related costs.

Rational for DRP

Cash retained will strengthen the balance sheet and help to finance development projects. The known development project in the pipeline is 7 Tai Seng Drive, which will be upgraded from a warehouse to a Hi-Tech Building. The property has been 100% committed, and likely to be used as a data centre.

Our assumptions for the DRP

The previous DRP ran for 13 quarters and was suspended after the 3Q FY15/16 distribution. Historically, the take-up rate of the DRP was ~44% annually, and almost \$80mn was retained annually. We currently assume ~44% take-up rate, which results in ~\$94mn cash retained annually. We also assume the DRP to be for six quarters, thus retaining \$146mn of cash and lowering aggregate leverage to 30.3% by the end of FY20.

Impact from DRP

As a result of our ~44% take-up rate, we estimate unit base to increase by an additional ~0.7% each quarter from the effect of the DRP and consequently ~2.7% per annum. Our value per unit is lowered by the DRP due to the dilutive effect.

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.)

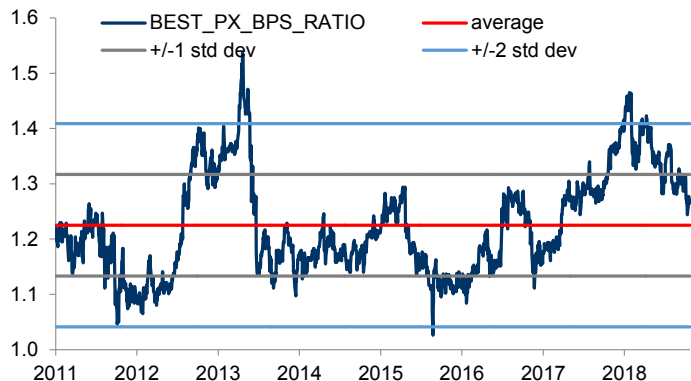
	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,958	2.56	1.24	6.1
Mapletree Industrial Trust	3,679	1.95	1.34	6.1
ESR-REIT	1,553	0.490	0.72	5.6
AIMS AMP Capital Industrial REIT	919	1.34	0.98	7.7
Soilbuild Business Space REIT	623	0.590	0.93	8.8
Sabana Shari'ah Compliant REIT	442	0.420	0.78	7.9
Average			1.00	7.0

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

Historical valuation

The forward P/NAV multiple is now 1.27 times, which is a tad higher than the historical average of 1.22 times. This suggests that MINT is just about fairly valued.

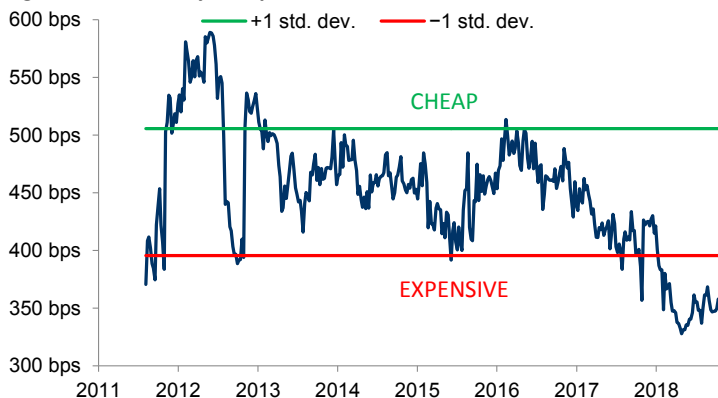
Figure 1: 12M-forward P/NAV (x) more than +1 std. dev. from historical average



Source: Bloomberg, PSR estimates

MINT's current yield spread over the 10-year Singapore Government Securities (10YR-SGS) is less than -1 standard deviation from the historical mean. The narrow yield spread suggests that MINT is currently expensive on a historical yield spread basis.

Figure 2: Historical yield spread over 10YR-SGS



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	370
Property expenses	(86)	(84)	(86)	(88)	(91)
Net property income	245	257	278	278	279
Net Finance (Expense)/Inc.	(26)	(27)	(33)	(40)	(41)
Manager's fees	(27)	(28)	(29)	(30)	(30)
Other items	(2)	(2)	(2)	(2)	(2)
Net income	191	200	214	206	206
Share of profit from JV	-	-	22	18	13
FV change, Invmnt. properties	82	70	65	-	-
Total Return Before Tax	273	271	301	224	219
Taxation	-	-	(0)	-	-
Total Return After Tax	273	271	301	224	219
Distribution adjustments	(75)	(66)	(88)	(10)	2
Income available for distribution	198	205	216	213	221

Per share data

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV (S\$)	1.37	1.41	1.47	1.49	1.50
EPU (cents)	15.40	15.02	16.36	10.83	10.64
DPU (cents)	11.15	11.39	11.75	12.19	12.01

*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	224	219
Adjustments	(53)	(42)	(59)	25	31
WC changes	0	5	3	9	4
Cash generated from ops	219	234	244	257	254
Others	0	0	1	0	1
Cashflow from ops	220	234	246	258	255
CFI					
CAPEX, net	(36)	(81)	(98)	(27)	-
Purchase of Inv. Propty.	(8)	(23)	(21)	(97)	(11)
Distribution from JV	-	-	-	13	13
Others	-	-	(156)	-	-
Cashflow from investments	(44)	(104)	(274)	(111)	2
CFF					
Share issuance, net	-	-	153	-	-
Loans, net of repayments	(55)	85	120	121	-
Distributions	(115)	(204)	(212)	(177)	(140)
Others	(25)	(28)	(33)	(40)	(41)
Cashflow from financing	(194)	(147)	28	(97)	(181)
Net change in cash	(18)	(16)	(1)	50	76
Ending cash	54	38	37	87	163

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	187	187
Others	0	0	1	1	1
Total non-current assets	3,558	3,749	4,091	4,220	4,231
Cash	54	38	37	87	163
Trade receivables	9	10	24	15	17
Others	2	1	2	2	2
Total current assets	66	49	63	104	182
Total Assets	3,624	3,798	4,154	4,324	4,413
LIABILITIES					
Trade payables	80	109	103	103	109
Borrowings	47	115	185	249	249
Others	-	-	0	0	0
Total current liabilities	127	224	288	352	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	2,829	2,912
Represented by:					
Unitholders' funds	2,465	2,533	2,780	2,829	2,912

Valuation Ratios

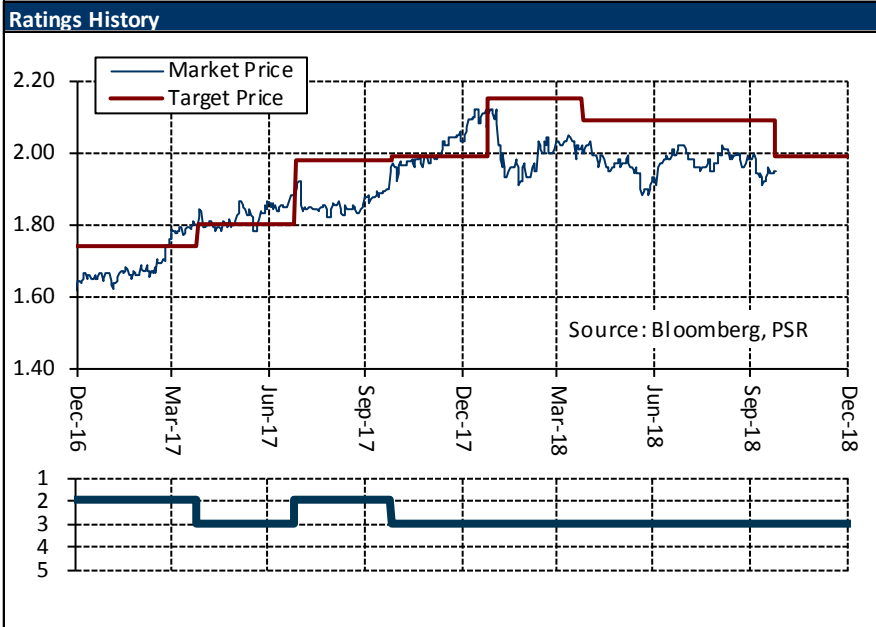
Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	10.5	11.9	12.4	18.0	18.3
P/NAV (x)	1.18	1.27	1.38	1.31	1.30
P/DPU (x)	14.5	15.8	17.2	16.0	16.2
Distribution Yield (%)	6.9	6.3	5.8	6.3	6.2
NPI yield (%)	7.0	7.0	7.3	7.0	6.9

Growth & Margins (%)

Growth					
Revenue	5.6%	2.7%	6.7%	0.6%	1.3%
Net property income (NPI)	7.2%	4.8%	8.1%	0.0%	0.6%
Distributable income	9.4%	3.6%	5.3%	-1.1%	3.7%
DPU	6.9%	2.2%	3.2%	3.7%	-1.5%
Margins					
NPI margin	73.9%	75.4%	76.4%	76.0%	75.5%

Key Ratios

Net Debt or (Net Cash)	967	1,068	1,181	1,252	1,176
Gearing (%)	28.2%	29.1%	29.3%	31.0%	30.3%



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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Marketing & Operations

Mohamed Amiruddin – amiruddin@phillip.com.sg

Banking and Finance

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow - richardleowwt@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Tara Wong - tarawongsi@phillip.com.sg

US Equity

Edmund Xue – edmundxuejj@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.