

Mapletree Industrial Trust

Consistent set of results



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

26 July 2017

- 1Q18 gross revenue in line with our forecast
- 1Q18 DPU exceeded our forecast by 6.6% from slower increase in property expenses
- Portfolio weighted average rental reversion of -2.0% for the quarter
- Raised FY18e/FY19e DPU forecast by 2.1%/1.2%, as we revised our property expense assumptions

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Gross revenue	88.8	84.1	5.6%	Contribution from Phase One of HP BTS since mid-Dec 2016
Net property income	68.2	63.8	6.9%	Gross revenue growth out-paced the 1.6% higher property operating expenses
Distributable income	52.6	51.5	2.2%	Higher NPI offset by higher borrowing costs and management fees
DPU (cents)	2.92	2.85	2.5%	0.07% larger unit base

Source: Company, PSR

The positives

- Organic growth drove revenue: Phase One of Hewlett-Packard (HP) build to suit (BTS), completed in October 2016, has started to contribute significantly to revenue. The completion of Phase Two on 23 June will be another trigger to revenue growth.
- Pre-emptive divestment of non-core asset: Divested 65 Tech Park Crescent (Light Industrial Building) on 20 July at its last valuation (as at end-March 2017) of S\$17.6 million, which is 34% above the acquisition price in 2010. The Manager had anticipated efficiency loss if the property were to be converted to a multi-tenanted building when the existing master lease expires in November 2017. Divestment proceeds will be redeployed into the ongoing committed development projects.
- No interest rate exposure for FY18: 72.8% of total debt has been hedged for a weighted average tenor of 3.7 years. No hedges are expiring in FY18.

The negatives

- Marginally lower QoQ occupancy from 93.1% to 92.6%: Driven by lower occupancies at Flatted Factories (non-renewals by some tenants) and Hi-Tech Buildings (temporary effect following completion of Phase Two of the HP BTS which was unoccupied).
- Portfolio weighted average rental reversion of -2.0%: Driven by negative reversions at Hi-Tech Buildings (-7.7%), Business Park Buildings (-4.5%) and Stack-up/Ramp-up Buildings (-1.5%). The lower rent at Hi-Tech Buildings came mainly from tenant renewals at the Toa Payoh North 1 cluster. Meanwhile, lower rent at Business Park Buildings was from a larger tenant (Sony) renewing about 80,000 sq ft of space.

Outlook

The outlook remains stable. While sector-wide reversions remain weak, there is a tapering of supply of industrial space in 2018 and indications of an uptick in industrial activity. Mapletree Industrial Trust (MINT) has a pipeline of projects coming on stream (see overleaf). Management reiterated its desire to increase the REIT's exposure to the data centre asset class.

Upgrade to Accumulate from Neutral; higher target price of \$1.98 (previously \$1.80)

We raised our FY18e/FY19e DPU forecast by 2.1%/1.2% as we revisit our property expenses assumptions. We also increased our terminal growth assumption to 1.5% from 0.5% previously, on account of the visible pipeline of projects, but more importantly, at 29.8% gearing, MINT has >S\$600 million of debt headroom available – potentially growing the portfolio by ~17%. Our target price represents an implied 1.41x FY18e P/NAV multiple, which compares against the FTSE REIT Index forward 12-months P/NAV multiple of 1.05x.

Accumulate (Upgrade)

LAST CLOSE PRICE	SGD 1.880
FORECAST DIV	SGD 0.114
TARGET PRICE	SGD 1.980
TOTAL RETURN	11.4%

COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1802
MARKET CAP (USD mn / SGD mn):	2489 / 3389
52 - WK HI/LO (SGD):	189 / 154
3M Average Daily T/O (mn):	2.70

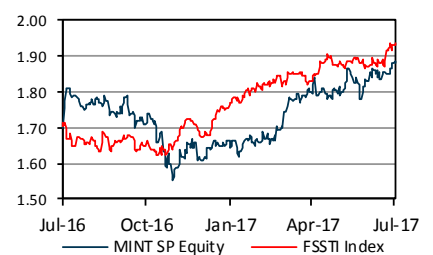
MAJOR SHAREHOLDERS (%)

MAPLE TREE INVESTMENTS PTE LTD	34.3%
SCHRODERS PLC	7.9%
AIA GROUP LTD	5.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.0	6.7	17.3
STI RETURN	3.2	6.5	16.6

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	356	373
NPI (SGD mn)	245	257	267	281
Dist. Inc. (SGD mn)	198	205	208	219
P/NAV (x)	1.18	1.27	1.34	1.33
DPU, adj (cents)	11.15	11.39	11.53	12.14
Distribution Yield (%)	6.9	6.4	6.1	6.5

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 super-structure has been completed up to the tenth storey. Pre-commitment level remains unchanged from the previous quarter – a child care centre taking up about 3% of the space.

AEI – 30A Kallang Place and Kallang Basin 4 Cluster



Estimated Cost
S\$77 million

Additional GFA
336,000 sq ft

Completion
1Q2018

- ✦ Development of 14-storey Hi-Tech Building (at existing car park) and improvement works at existing buildings
- ✦ Located at Kallang iPark, an upcoming industrial hub for high value and knowledge-based businesses
- ✦ Completed sub-structure works
- ✦ Super-structure works completed up to 10th storey



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Source: Company 1QFY17/18 Financial Results Presentation, 25 July 2017

Update to New Data Centre BTS

The key highlight was an increase in estimated cost to S\$76 million from S\$60 million previously. The increase in development cost is due to additional specifications by the user. There will be a corresponding improvement in rent as well.

BTS Project – New Data Centre



Estimated Cost
S\$76 million¹

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
- ✦ Construction of pile caps and other sub-structure works is underway

¹ Total development cost increased from S\$60 million to S\$76 million due to additional builder's works.

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Source: Company 1QFY17/18 Financial Results Presentation, 25 July 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	7,849	2.72	1.32	5.8
Mapletree Industrial Trust	3,389	1.880	1.34	6.1
AIMS AMP Capital Industrial REIT	945	1.480	1.06	7.5
Viva Industrial Trust	885	0.915	1.15	7.8
ESR-REIT	757	0.580	0.92	6.8
Soilbuild Business Space REIT	744	0.710	0.99	8.3
Sabana Shari'ah Compliant REIT	484	0.460	0.77	8.4
Average			1.08	7.2

Source: Bloomberg (Updated: 25 July 2017), PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross revenue	314	332	341	356	373
Property expenses	(85)	(86)	(84)	(88)	(92)
Net property income	229	245	257	267	281
Net Finance (Expense)/Inc.	(24)	(26)	(27)	(32)	(34)
Manager's fees	(25)	(27)	(28)	(29)	(29)
Other items	(2.3)	(2.3)	(1.9)	(2.5)	(2.6)
Exceptional items	-	-	-	-	-
Net income	178	191	200	205	216
FV change, Invmnt. properties	197	82	70	-	-
Total Return Before Tax	375	273	271	205	216
Taxation	(1.1)	-	-	-	-
Total Return After Tax	374	273	271	205	216
Distribution adjustments	(194)	(75)	(66)	4	4
Income available for distribution	181	198	205	208	219

Per share data

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
NAV (\$\$)	1.32	1.37	1.41	1.40	1.41
EPU (cents)	21.82	15.40	15.02	11.35	11.95
DPU (cents)	10.43	11.15	11.39	11.53	12.14

*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	205	216
Adjustments	(175)	(53)	(42)	34	36
WC changes	7.1	0.0	5.4	(17.5)	9.8
Cash generated from ops	207	219	234	221	261
Others	(1.7)	0.4	0.4	0.2	0.1
Cashflow from ops	205	220	234	221	261
CFI					
CAPEX, net	(34)	(36)	(81)	(114)	(37)
Purchase of Inv. Propty.	(20)	(8)	(23)	18	-
Others	-	-	-	-	-
Cashflow from investments	(54)	(44)	(104)	(96)	(37)
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(54)	(55)	85	94	40
Dividends	(97)	(115)	(204)	(207)	(215)
Others	(22)	(25)	(28)	(32)	(34)
Cashflow from financing	(174)	(194)	(147)	(145)	(209)
Net change in cash	(24)	(18)	(16)	(20)	15
Ending cash	72	54	38	17	33

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	3,805	3,882
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	3,845	3,882
Cash	72	54	38	17	33
Trade receivables	13	9	10	12	11
Others	2.9	2.2	1.2	1.2	1.2
Total current assets	88	66	49	31	45
Total Assets	3,516	3,624	3,798	3,876	3,927
LIABILITIES					
Trade payables	70	80	109	93	102
Borrowings	125	47	115	185	335
Others	-	-	-	-	-
Total current liabilities	196	127	224	278	437
Borrowings	949	974	991	1,015	905
Others	59	58	50	50	50
Total non-current liabilities	1,008	1,032	1,042	1,066	956
Total Liabilities	1,204	1,159	1,265	1,343	1,393
Net assets	2,312	2,465	2,533	2,532	2,535
Represented by:					
Unitholders' funds	2,308	2,465	2,533	2,532	2,535
Hedging reserve	4.2	-	-	-	-

Valuation Ratios

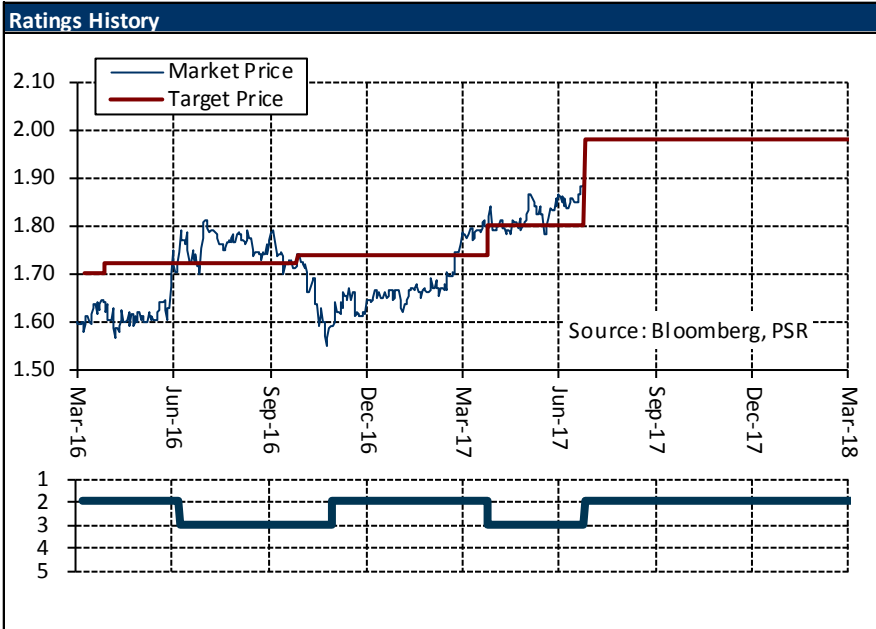
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/NAV (x)	1.2	1.2	1.3	1.3	1.3
P/DPU (x)	15.3	14.5	15.7	16.3	15.5
Distribution Yield (%)	6.5	6.9	6.4	6.1	6.5
NPI yield (%)	6.9	7.0	7.0	7.0	7.3

Growth & Margins (%)

Growth					
Revenue	4.9%	5.6%	2.7%	4.5%	5.0%
Net property income (NPI)	6.5%	7.2%	4.8%	4.1%	5.2%
Distributable income	8.9%	9.4%	3.6%	1.5%	5.3%
DPU	5.1%	6.9%	2.2%	1.2%	5.3%
Margins					
NPI margin	72.8%	73.9%	75.4%	75.1%	75.3%

Key Ratios

Net Debt or (Net Cash)	1,003	967	1,068	1,183	1,208
Gearing (%)	30.6%	28.2%	29.1%	31.0%	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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