

Mapletree Industrial Trust

Strategic acquisition in US to lift portfolio



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SINGAPORE | REAL ESTATE (REIT) | 3Q18 RESULTS

24 January 2018

- Gross revenue 4.1% higher than expected; we under-estimated the impact of Phase 2 of the HP build-to-suit
- DPU consequently higher than our estimate by 3.6%
- JV of 14 US data centres started contributing and mitigates domestic headwinds
- Maintain Neutral; higher target price of \$2.15 (previously \$1.99)

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Gross revenue	91.5	84.5	8.3%	Contribution from HP build-to-suit
Net property income	70.9	63.4	11.7%	2.0% lower property operating expenses
Share of profit from JV	0.73	-	N.M.	12 days contribution from Dec 20, 2017
Distributable income	53.5	51.1	4.6%	13.9% higher trust expenses; mainly from higher borrowing costs and manager's fees
DPU (cents)	2.88	2.83	1.8%	0.99 cent advanced distribution before private placement and 1.89 cents for enlarged units

Source: Company, PSR

The Positives

- Higher back-filling of space vacated by Johnson & Johnson at The Strategy.** The vacated space (28% of NLA at The Strategy) is now 23% back-filled, which is slightly higher than the 15% reported in the previous quarter.
- Gearing remains relatively low at 33.8%**, albeit higher QoQ from 30.0%. The increase in borrowings was to part fund the acquisition of the US data centres.
- Enquiries are picking up at the Kallang AEI project.** The manager reported that it has secured 12% commitment for 30A Kallang Place and Kallang Basin 4 Cluster asset enhancement initiative (AEI), improving the 3% that was stagnant over the previous two quarters. There are more enquiries for the property now that it is almost completed (expected to obtain temporary occupation permit in January or February). The manager has ~18% more in discussion and is optimistic on reporting 30% occupancy at the end of FY17/18 and 75% occupancy by the end of CY2018. Prospects are coming from technology companies such as software and information technology development.

The Negatives

- Portfolio weighted average rental reversion of -1.18%.** Dragged down by Flatted Factories (-1.6%) and Stack-up/Ramp-Up Buildings (-1.7%).
- Marginally lower Singapore occupancy QoQ from 90.4% to 90.1%.** Dragged down by Flatted Factories (a larger tenant not fully renewing space) and Business Park Buildings (effect of J&J pre-termination). However, overall portfolio is marginally higher at 90.5%, after taking into account the 40% proportionate share of the US data centre portfolio that is 97.4% occupied.

Outlook

The outlook is stable to positive. Oversupply situation is improving, with the tapering of new supply in 2018. MINT has two projects coming on stream in 2018 – Kallang AEI (leasing is ongoing) and data centre BTS (no occupancy risk) which should contribute positively to the portfolio.

Maintain Neutral; higher target price of \$2.15 (previously \$1.99)

We have revised our FY18e/FY19e revenue estimates 1.7%/3.9% higher than previous. DPU estimates for FY18e/FY19e have been raised 3.8%/9.2% higher. Key positives are the higher proportion of Hi-Tech Buildings segment in the portfolio following the injection of the US data centres, and the relatively low gearing. Estimated yield of 5.8% should be stable with some upside, but we find valuation unconvincing. Our target price represents an implied 1.48 times FY18e P/NAV multiple.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 2.070
FORECAST DIV	SGD 0.114
TARGET PRICE	SGD 2.150
TOTAL RETURN	9.4%

COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1885
MARKET CAP (USD mn / SGD mn):	2995 / 3940
52 - WK HI/LO (SGD):	2.12 / 1.61
3M Average Daily T/O (mn):	3.45

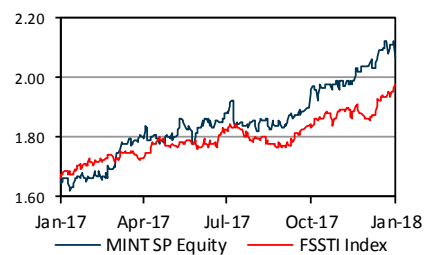
MAJOR SHAREHOLDERS (%)

MAPLETREE INVESTMENTS PTE LTD	30.9%
SCHRODERS PLC	7.5%
AIA GROUP LTD	4.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	15	8.4	33.2
STI RETURN	6.1	7.6	22.6

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	365	387
NPI (SGD mn)	245	257	281	295
Dist. Inc. (SGD mn)	198	205	224	252
P/E (x)	10.5	11.9	17.3	16.3
P/NAV (x)	1.18	1.27	1.43	1.46
DPU, adj (cents)	11.15	11.39	12.08	13.36
Distribution Yield (%)	6.9	6.4	5.8	6.5

Source: Company Data, PSR est.

VALUATION METHOD

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

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Update to New Data Centre BTS

The fourth storey structure slab has been completed and installation of external façade has commenced. The project remains on track for completion in 2H 2018.

Figure 1: BTS Project – New Data Centre



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 construction of fourth storey structure slab and commenced installation of external facade

Source: Company 3QFY17/18 Financial Results Presentation, 23 January 2018

Relative valuation

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

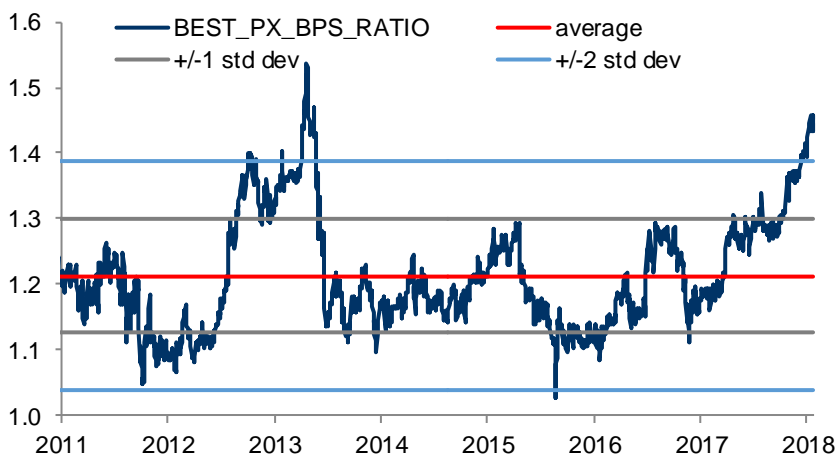
Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Ascendas REIT	7,941	2.75	1.29	5.8
Mapletree Industrial Trust	3,940	2.090	1.47	6.0
AIMS AMP Capital Industrial REIT	943	1.380	1.01	7.1
Viva Industrial Trust	912	0.940	1.19	7.7
ESR-REIT	742	0.565	0.80	6.8
Soilbuild Business Space REIT	735	0.700	1.10	8.4
Sabana Shari'ah Compliant REIT	437	0.415	0.73	8.1
Average			1.09	7.1

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

Historical valuation

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



Source: Bloomberg, PSR estimates

Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross revenue	314	332	341	365	387
Property expenses	(85)	(86)	(84)	(84)	(93)
Net property income	229	245	257	281	295
Net Finance (Expense)/Inc.	(24)	(26)	(27)	(33)	(35)
Manager's fees	(25)	(27)	(28)	(29)	(30)
Other items	(2.3)	(2.3)	(1.9)	(2.6)	(2.6)
Share of profit from JV	-	-	-	4	13
Exceptional items	-	-	-	-	-
Net income	178	191	200	220	240
FV change, Invmnt. properties	197	82	70	-	-
Total Return Before Tax	375	273	271	224	253
Taxation	(1.1)	-	-	-	-
Total Return After Tax	374	273	271	224	253
Distribution adjustments	(194)	(75)	(66)	(1)	(1)
Income available for distribution	181	198	205	224	252

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	11.96	12.73
DPU (cents)	10.43	11.15	11.39	12.08	13.36

*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	224	253
Adjustments	(175)	(53)	(42)	31	24
WC changes	7.1	0.0	5.4	(15.4)	11.1
Cash generated from ops	207	219	234	240	288
Others	(1.7)	0.4	0.4	0.1	0.2
Cashflow from ops	205	220	234	240	288
CFI					
CAPEX, net	(34)	(36)	(81)	(114)	(37)
Purchase of Inv. Propty.	(20)	(8)	(23)	18	-
Others	-	-	-	(164)	13
Cashflow from investments	(54)	(44)	(104)	(260)	(24)
CFF					
Share issuance, net	-	-	-	125	-
Loans, net of repayments	(54)	(55)	85	136	40
Dividends	(97)	(115)	(204)	(213)	(249)
Others	(22)	(25)	(28)	(33)	(35)
Cashflow from financing	(174)	(194)	(147)	15	(244)
Net change in cash	(24)	(18)	(16)	(6)	20
Ending cash	72	54	38	32	52

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	-
Joint Venture	-	-	-	168	168
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	4,013	4,050
Cash	72	54	38	32	52
Trade receivables	13	9	10	12	12
Others	2.9	2.2	1.2	1.2	1.2
Total current assets	88	66	49	46	65
Total Assets	3,516	3,624	3,798	4,059	4,115
LIABILITIES					
Trade payables	70	80	109	95	106
Borrowings	125	47	115	185	335
Others	-	-	-	-	-
Total current liabilities	196	127	224	280	441
Borrowings	949	974	991	1,057	947
Others	59	58	50	50	50
Total non-current liabilities	1,008	1,032	1,042	1,107	997
Total Liabilities	1,204	1,159	1,265	1,388	1,438
Net assets	2,312	2,465	2,533	2,671	2,677
Represented by:					
Unitholders' funds	2,308	2,465	2,533	2,671	2,677
Hedging reserve	4.2	-	-	-	-

Valuation Ratios

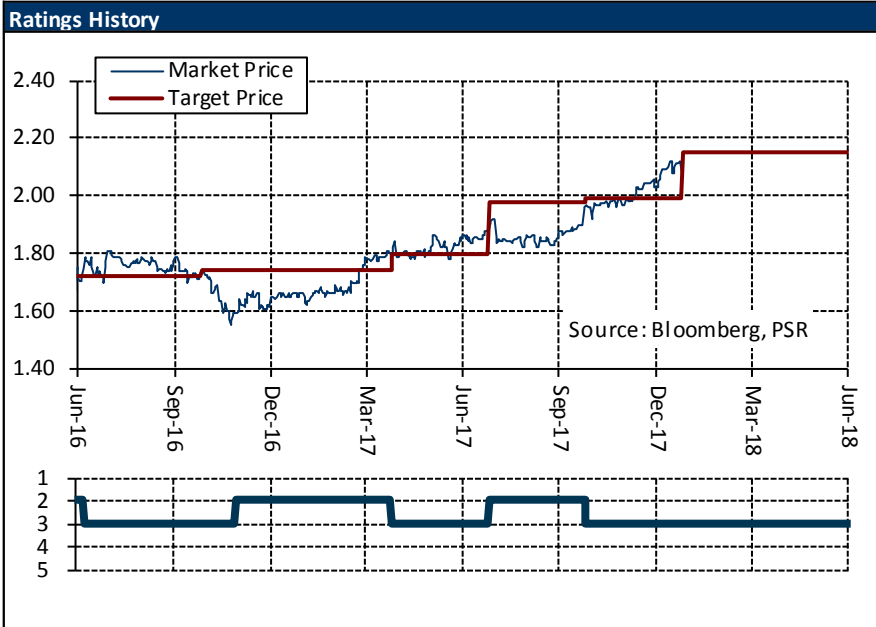
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	7.3	10.5	11.9	17.3	16.3
P/NAV (x)	1.2	1.2	1.3	1.4	1.5
P/DPU (x)	15.3	14.5	15.7	17.1	15.5
Distribution Yield (%)	6.5	6.9	6.4	5.8	6.5
NPI yield (%)	6.9	7.0	7.0	7.4	7.6

Growth & Margins (%)

Growth					
Revenue	4.9%	5.6%	2.7%	7.2%	6.1%
Net property income (NPI)	6.5%	7.2%	4.8%	9.5%	4.8%
Distributable income	8.9%	9.4%	3.6%	9.1%	12.7%
DPU	5.1%	6.9%	2.2%	6.1%	10.6%
Margins					
NPI margin	72.8%	73.9%	75.4%	77.0%	76.1%

Key Ratios

Net Debt or (Net Cash)	1,003	967	1,068	1,210	1,230
Gearing (%)	30.6%	28.2%	29.1%	30.6%	31.2%



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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