

# Mapletree Industrial Trust

## Acquiring 18 Tai Seng from Sponsor



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

14 December 2018

- Purchase consideration of S\$262mn for a nine-storey mixed-use development with Business 2 industrial, office and retail spaces
- Sizeable property value of S\$268mn adds +6.1% to existing S\$4.4bn portfolio
- Proposed acquisition is subject to unitholder approval at an EGM
- Upgrade to Accumulate from Neutral; new target price of \$2.03 (previously \$1.99)

### What is the news?

Mapletree Industrial Trust (MIT) announced the acquisition of 18 Tai Seng from its Sponsor, Mapletree Investments Pte Ltd. A date for the extraordinary general meeting (EGM) has not been set, as the Circular is pending approval by SGX. However, the manager is working towards making the date of the EGM known by January 2019. MIT has sufficient debt headroom to acquire the property fully-funded by debt, but a final decision on the funding structure has not been reached. The manager commented that it would be dependent on market conditions.

Pro forma illustrations by the manager for 100%, 60% and 40% loan to value scenarios show that the acquisition is DPU and NAV accretive. Aggregate leverage would rise to 38.7% if fully-funded by debt. The occupancy of the property is currently 87.4%, and committed leases of 95.7% to commence progressively by 1 March 2019.

### How do we view this?

#### The Positives

- + **Location, location, location.** 18 Tai Seng is located in Paya Lebar iPark and is easily accessible by public transportation and major expressways. The property is directly connected by an underground pedestrian link to the Tai Seng MRT station; and is accessible to three major expressways of Kallang-Paya Lebar Expressway, Pan-Island Expressway and Central Expressway. The property is also newly completed in November 2016 to high specifications of column-free floor plates, full-height windows and BCA Green Mark Gold certification which adds to its attractiveness.
- + **Healthy WALE of 3.6 years with back-loaded lease expiry profile.** Property weighted average lease expiry of 3.6 years is in line with that of the existing portfolio. However, the lease expiry profile is substantially back-loaded with 78% in FY22/23 and beyond. This provides predictable income visibility for the next four to five years.
- + **Lowers tenant concentration risk.** Addition of 18 Tai Seng would lower maximum risk exposure to any single tenant from 10.0% (currently Hewlett-Packard) to 9.4%. Top 10 tenants currently contribute 26.3% of gross rental income; and this would be lowered to 25.8%.
- + **Existing DRP which resumed for 2Q FY18/19 will ease the funding burden.** Recall that the distribution reinvestment plan (DRP) was resumed in the most recent quarter, and that resulted in \$22.8mn cash retention for the quarter. To put that into context, it would take about 12 quarters of DRP cash retention to cover the total acquisition outlay of S\$271mn.

#### The Negatives

- **Adds Retail space to the MIT portfolio.** Retail space accounts for 12.3% of the property's net lettable area (NLA). According to URA data, Fringe Retail rent peaked in 4Q 2014 and has trended lower since. The latest 3Q 2018 Fringe Rental Index is 17% lower than the peak. We think that the retail component of the property could be potential source of drag in subsequent lease renewal cycles.

### Upgrade to Accumulate from Neutral; higher target price of \$2.03 (previously \$1.99)

We have assumed that the property is acquired fully-funded by debt and DRP is maintained for 12 quarters. Minimal DPU impact for FY18/19, but our FY19/20 DPU estimate increases by 3.4% to 12.42 cents from previous 12.01 cents.

### Accumulate (Upgraded)

LAST CLOSE PRICE	SGD 1.910
FORECAST DIV	SGD 0.122
TARGET PRICE	SGD 2.030
<b>TOTAL RETURN</b>	<b>12.7%</b>

#### COMPANY DATA

BLOOMBERG CODE:	MINT SP
O/S SHARES (MN):	1899
MARKET CAP (USD mn / SGD mn):	2643 / 3627
52 - WK HI/LO (SGD):	2.13 / 1.84
3M Average Daily T/O (mn):	2.54

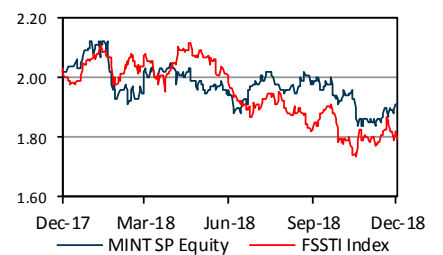
#### MAJOR SHAREHOLDERS (%)

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

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.2	(2.0)	(0.7)
STI RETURN	19	(0.5)	(7.0)

#### 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	368	394
NPI (SGD mn)	257	278	280	298
Dist. Inc. (SGD mn)	205	216	214	229
P/NAV (x)	1.27	1.38	1.28	1.27
DPU, adj (cents)	11.39	11.75	12.22	12.42
Distribution Yield (%)	6.3	5.8	6.4	6.5

Source: Company Data, PSR est.

#### VALUATION METHOD

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

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Gross revenue</b>	<b>332</b>	<b>341</b>	<b>363</b>	<b>368</b>	<b>394</b>
Property expenses	(86)	(84)	(86)	(88)	(96)
<b>Net property income</b>	<b>245</b>	<b>257</b>	<b>278</b>	<b>280</b>	<b>298</b>
Net Finance (Expense)/Inc.	(26)	(27)	(33)	(41)	(49)
Manager's fees	(27)	(28)	(29)	(31)	(32)
Other items	(2)	(2)	(2)	(2)	(2)
<b>Net income</b>	<b>191</b>	<b>200</b>	<b>214</b>	<b>206</b>	<b>215</b>
Share of profit from JV	-	-	22	18	13
FV change, Invmnt. properties	82	70	65	-	-
<b>Total Return Before Tax</b>	<b>273</b>	<b>271</b>	<b>301</b>	<b>224</b>	<b>227</b>
Taxation	-	-	(0)	-	-
<b>Total Return After Tax</b>	<b>273</b>	<b>271</b>	<b>301</b>	<b>224</b>	<b>227</b>
Distribution adjustments	(75)	(66)	(88)	(10)	2
<b>Income available for distribution</b>	<b>198</b>	<b>205</b>	<b>216</b>	<b>214</b>	<b>229</b>

### 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	10.85	11.05
DPU (cents)	11.15	11.39	11.75	12.22	12.42

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

### Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Total return	273	271	301	224	227
Adjustments	(53)	(42)	(59)	26	39
WC changes	0	5	3	9	10
Cash generated from ops	219	234	244	260	276
Others	0	0	1	0	1
<b>Cashflow from ops</b>	<b>220</b>	<b>234</b>	<b>246</b>	<b>260</b>	<b>277</b>
<b>CFI</b>					
CAPEX, net	(36)	(81)	(98)	(27)	-
Purchase of Inv. Propty.	(8)	(23)	(21)	(370)	(22)
Distribution from JV	-	-	-	13	13
Others	-	-	(156)	-	-
<b>Cashflow from investments</b>	<b>(44)</b>	<b>(104)</b>	<b>(274)</b>	<b>(384)</b>	<b>(9)</b>
<b>CFF</b>					
Share issuance, net	-	-	153	-	-
Loans, net of repayments	(55)	85	120	394	(80)
Distributions	(115)	(204)	(212)	(177)	(144)
Others	(25)	(28)	(33)	(41)	(49)
<b>Cashflow from financing</b>	<b>(194)</b>	<b>(147)</b>	<b>28</b>	<b>175</b>	<b>(273)</b>
<b>Net change in cash</b>	<b>(18)</b>	<b>(16)</b>	<b>(1)</b>	<b>51</b>	<b>(6)</b>
<b>Ending cash</b>	<b>54</b>	<b>38</b>	<b>37</b>	<b>89</b>	<b>83</b>

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
<b>ASSETS</b>					
Investment properties	3,338	3,531	3,857	4,305	4,327
Inv. Propty. Under Devmnt.	220	218	52	-	-
Joint Venture	-	-	181	187	187
Others	0	0	1	1	1
<b>Total non-current assets</b>	<b>3,558</b>	<b>3,749</b>	<b>4,091</b>	<b>4,493</b>	<b>4,515</b>
Cash	54	38	37	89	83
Trade receivables	9	10	24	15	18
Others	2	1	2	2	2
<b>Total current assets</b>	<b>66</b>	<b>49</b>	<b>63</b>	<b>106</b>	<b>103</b>
<b>Total Assets</b>	<b>3,624</b>	<b>3,798</b>	<b>4,154</b>	<b>4,598</b>	<b>4,618</b>
<b>LIABILITIES</b>					
Trade payables	80	109	103	104	116
Borrowings	47	115	185	249	249
Others	-	-	0	0	0
<b>Total current liabilities</b>	<b>127</b>	<b>224</b>	<b>288</b>	<b>352</b>	<b>365</b>
Borrowings	974	991	1,033	1,363	1,283
Others	58	50	53	53	53
<b>Total non-current liabilities</b>	<b>1,032</b>	<b>1,042</b>	<b>1,086</b>	<b>1,416</b>	<b>1,336</b>
<b>Total Liabilities</b>	<b>1,159</b>	<b>1,265</b>	<b>1,374</b>	<b>1,768</b>	<b>1,701</b>
<b>Net assets</b>	<b>2,465</b>	<b>2,533</b>	<b>2,780</b>	<b>2,830</b>	<b>2,917</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>2,465</b>	<b>2,533</b>	<b>2,780</b>	<b>2,830</b>	<b>2,917</b>

### Valuation Ratios

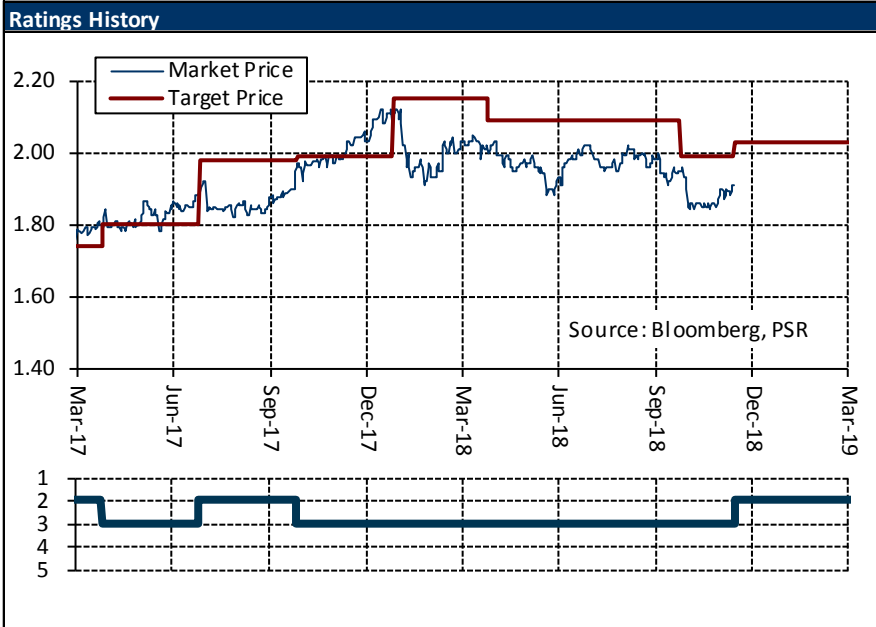
Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	10.5	11.9	12.4	17.6	17.3
P/NAV (x)	1.18	1.27	1.38	1.28	1.27
P/DPU (x)	14.5	15.8	17.2	15.6	15.4
Distribution Yield (%)	6.9	6.3	5.8	6.4	6.5
NPI yield (%)	7.0	7.0	7.3	6.8	6.9

### Growth & Margins (%)

<b>Growth</b>					
Revenue	5.6%	2.7%	6.7%	1.4%	7.0%
Net property income (NPI)	7.2%	4.8%	8.1%	0.8%	6.4%
Distributable income	9.4%	3.6%	5.3%	-0.9%	7.3%
DPU	6.9%	2.2%	3.2%	4.0%	1.6%
<b>Margins</b>					
NPI margin	73.9%	75.4%	76.4%	76.0%	75.5%

### Key Ratios

Net Debt or (Net Cash)	967	1,068	1,181	1,523	1,449
Gearing (%)	28.2%	29.1%	29.3%	35.1%	33.2%



### 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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