

Singapore Company Guide

Mapletree Industrial Trust

Version 20 | Bloomberg: MINT SP | Reuters: MAPI.SI

Refer to important disclosures at the end of this report

1 Jul 2020

BUY

Last Traded Price (1 Jul 2020): S\$2.90 (STI : 2,610.17)
Price Target 12-mth: S\$3.25 (12% upside) (Prev S\$2.70)

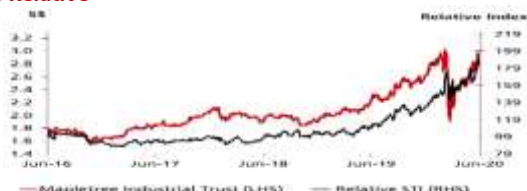
Analyst

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What's New

- Acquisition of the remaining 60% stake in portfolio of 14 datacenters in the US; key earnings driver in 2HFY21
- Higher contribution from datacenters to underpin higher valuations
- Fund raising to boost liquidity; potential inclusion into MSCI Singapore index
- BUY, TP raised to S\$3.25

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020A	2021F	2022F
Gross Revenue	376	406	435	509
Net Property Inc	288	318	322	386
Total Return	271	367	265	295
Distribution Inc	232	265	271	300
EPU (S cts)	12.5	15.0	11.4	12.5
EPU Gth (%)	0	20	(24)	9
DPU (S cts)	12.2	12.2	12.0	12.7
DPU Gth (%)	3	1	(2)	6
NAV per shr (S cts)	151	162	156	155
PE (X)	23.2	19.4	25.4	23.2
Distribution Yield (%)	4.2	4.2	4.1	4.4
P/NAV (x)	1.9	1.8	1.9	1.9
Aggregate Leverage (%)	28.1	35.8	36.7	36.7
ROAE (%)	8.2	9.6	7.3	8.0

Distn. Inc Chng (%): - 3
Consensus DPU (S cts): 13.3 12.9
Other Broker Recs: B: 12 S: 2 H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Reaching for the stars

Maintain BUY on higher TP of S\$3.25. We maintain our BUY call on Mapletree Industrial Trust (MINT) and lift our TP to S\$3.25. With the recent acquisition of a portfolio of datacenters, the Trust is on track to transform itself into an alternative datacentre play. Improved earnings visibility and capacity to still grow in this space should keep valuations at a premium. Our TP is raised to S\$3.25 as we (i) factor in recent acquisitions and (ii) lower cost of equity assumptions. Potential inclusion into the MSCI Singapore Index in the upcoming reviews in 2H2020 could be a catalyst for further upside.

Where we differ: An expected dip in operational performance.

The Manager has proactively offered a rental relief package to its tenants (up to 1 month for industrial SME tenants and 2 months for retail tenants). We estimate total reliefs to be c.S\$20m, and have included this in FY21F earnings. The impact is mitigated somewhat by contribution from its acquisition of a portfolio of 14 datacenters from 2HFY21, which lifts our estimates by c.3%.

Attractive "land bank" in Singapore. We believe MINT can surprise on the upside in terms of acquisitions in the medium term. The redevelopment of its "land bank" of older flatted factories like the Kolam Ayer cluster should help to increase portfolio GFA and drive medium-term growth in distributions and NAV. These should continue to keep valuations at a premium.

Valuation:

MINT's resilience is a valued trait in this market, supporting higher valuations. We maintain our BUY call with TP of S\$3.25 based on DCF.

Key Risks to Our View:

Rising interest rates. An increase in refinancing rates will be negative to distributions.

At A Glance

Issued Capital (m shrs)	2,202
Mkt. Cap (S\$m/US\$m)	6,384 / 4,581
Major Shareholders (%)	
Temasek Holdings Pte Ltd	29.4
Schroders Plc	5.0
Free Float (%)	65.6
3m Avg. Daily Val (US\$m)	16.2
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



DBS
Live more, Bank less

WHAT'S NEW

Growing datacenter focus

Acquiring additional stake in Sponsor's datacentre portfolio.

MINT is proposing to acquire the remaining 60% stake in a portfolio of 14 datacenters located in the USA from its Sponsor, Mapletree Investments (Mapletree). This portfolio was jointly acquired by MINT (40%) and Mapletree (60%) back in 2017 in their first foray into the datacenter space for US\$750m.

Purchase consideration at a slight discount to last valuation.

The purchase consideration for the 60% stake is US\$210.9m (S\$299.5m) which implies a property value of US\$494m (60% interest of the portfolio or US\$823.3m on a 100% basis). This is in line with the latest valuation of the portfolio as of 31 March 2020 by Cushman & Wakefield and 0.7% discount to the latest independent valuation commissioned by Newmark Knight Frank Valuation & Advisory LLC as at 31 May 2020.

Robust response from equity fund raising (EFR). MINT raised S\$410m from a recent private placement exercise to existing and new shareholders, higher than its initial target of S\$350m. The placement price was S\$2.80/unit, at the top end of the indicative deal range and 1.6% discount to the adjusted VWAP. The funds will be used to part fund the acquisition of the 14 datacenters and the balance will be used to pare down its gearing.

Our thoughts on the deal.

(+) Increased datacenter exposure is positive for MINT as earnings resilience will improve significantly. The acquisition of the portfolio will further pivot MINT's exposure towards high-tech specification (High specs) assets, including datacenters which is deemed to be positive for the Trust. This acquisition increases the Trust's earnings resilience within this industrial sub-segment as this class of assets is deemed to be future proof, supporting continued evolving needs of the new economy. MINT's increased exposure to datacenters from

31.6% pre-acquisition (7.2% SG, 24.4% USA) to c.39% (6.5% SG, 32.5% USA) aligns with management's longer term strategy to diversify its income diversity and anchor itself in the datacenter space.

This should also be a re-rating catalyst for MINT, in our view. We believe that MINT has an opportunity to close the gap with the other datacenter focused peers like SGX-listed KDC REIT.

(+) Target portfolio of datacenters improves portfolio metrics.

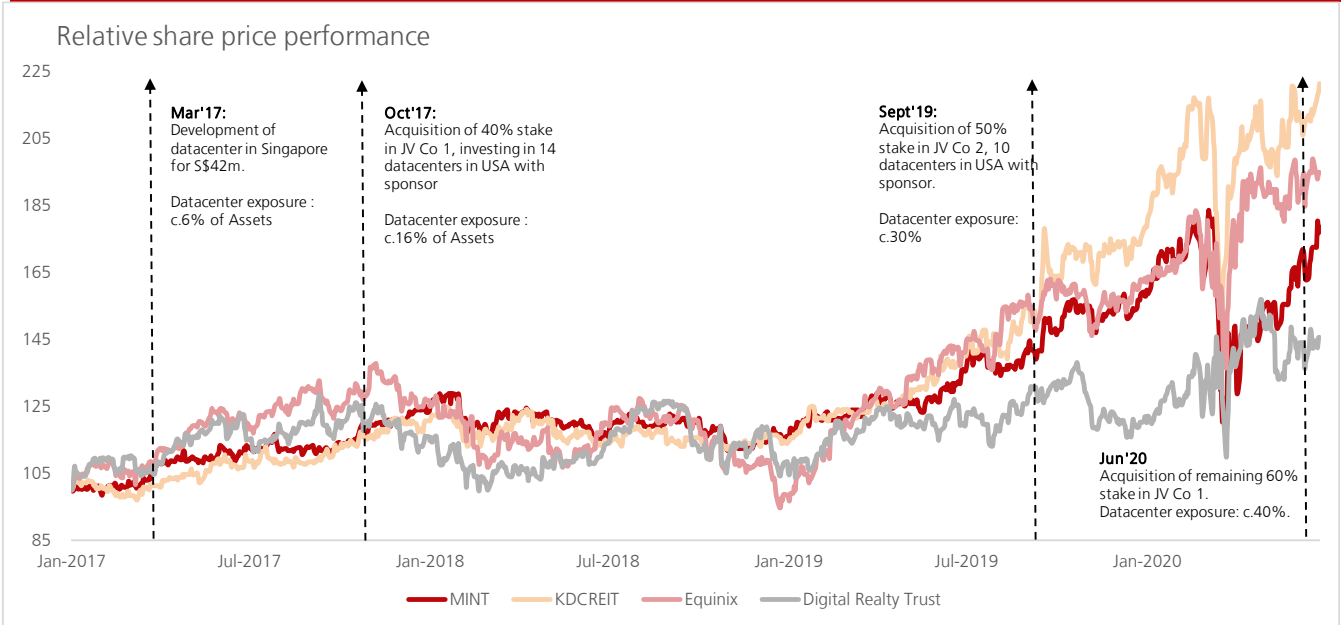
We note that this portfolio of datacenters are majority powered shell data-centres (c.81.6% by gross rental income) where tenants typically pay triple net lease structures and outgoings are borne by the tenants. The portfolio has a well staggered lease expiry of c.20% within the next 3 years. Since the portfolio was acquired back in 2017, the properties have maintained stable occupancies while revenues have risen by c.2.4%, driven mainly by rental escalations.

Freehold properties as a percentage of the enlarged portfolio's land area has expanded to 51.8% from 37.9%. The weighted average land lease expiry is 36.8 years.

(+) Accretive to DPU; raising estimates. Based on our estimates, the acquisition will increase our projected DPUs by c.3.0% on an annualised basis and at the same time, keep gearing within an optimal c.39% level. We have adjusted our estimates to account for the following: (i) assume recent acquisition completes in Sept 2020; (ii) new share issuance in June 2020, (iii) rental reliefs of c.S\$20m in FY21. As a result, DPU in FY21F is adjusted down by 2%, while we pencil in a 7% increase in FY22F.

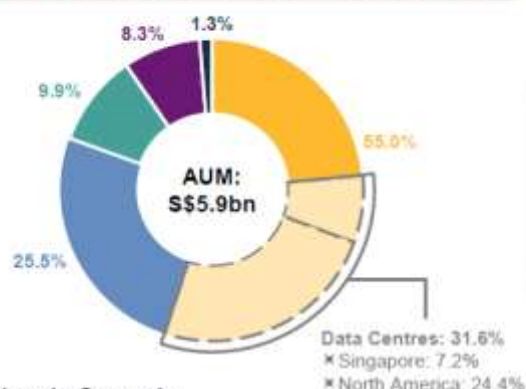
Our TP is raised to S\$3.25/unit on the back of this acquisition and lower cost of equity assumptions, given its focus in the datacenter space.

Performance of MINT to catch up with KDCREIT.



Exposure changes post acquisition

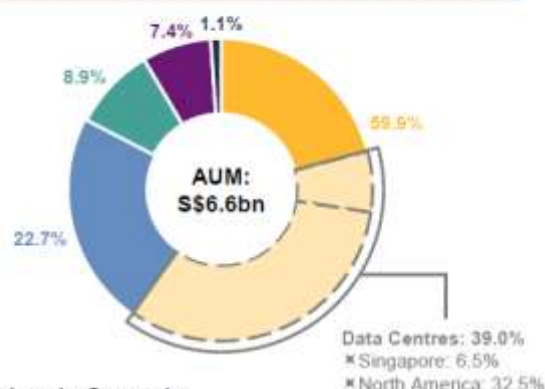
Pre-Acquisition: Portfolio Breakdown by Asset Type¹



Breakdown by Geography

Singapore	75.6%
North America	24.4%

Post-Acquisition: Portfolio Breakdown by Asset Type²



Breakdown by Geography











Singapore	67.5%
North America	32.5%

■ Hi-Tech Buildings (Including Data Centres)
 ■ Data Centres
 ■ Flatbed Factories
 ■ Business Park Buildings
 ■ Stack-up/Ramp-up Buildings
 ■ Light Industrial Buildings

Source of all data: Company, DBS Bank











Tenant base post acquisition

Top 10 MRDCT Tenants by GRI Contribution as at 31 March 2020











AT&T		41.9%
The Vanguard Group		9.5%
General Electric		8.1%
Level 3 Communications		6.0%
Equinix		5.8%
CommonSpirit Health		5.1%
Atos		3.9%
TierPoint		3.8%
IT Solutions Provider ³		3.3%
Intermap		3.2%

■ Data Centre Tenants
 ■ Other Tenants

Pre-Acquisition: Top 10 MIT Tenants by GRI Contribution as at 31 March 2020¹

HP		8.0%
Global Social Media Company ³		4.0%
Equinix		3.6%
Global Colocation Provider ³		2.9%
AT&T		2.8%
STT Tai Seng		2.4%
Fortune 25 Investment Grade-Rated Company ³		1.6%
Sivantos		1.6%
Life Technologies		1.1%
IT Solutions Provider ³		1.1%
Total		29.1%

Post-Acquisition: Top 10 MIT Tenants by GRI Contribution²

HP		7.2%
AT&T		6.5%
Equinix		3.8%
Global Social Media Company ³		3.6%
Global Colocation Provider ³		2.6%
STT Tai Seng		2.2%
Fortune 25 Investment Grade-Rated Company ³		1.5%
Sivantos		1.5%
The Vanguard Group		1.5%
IT Solutions Provider ³		1.3%
Total		31.7%

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

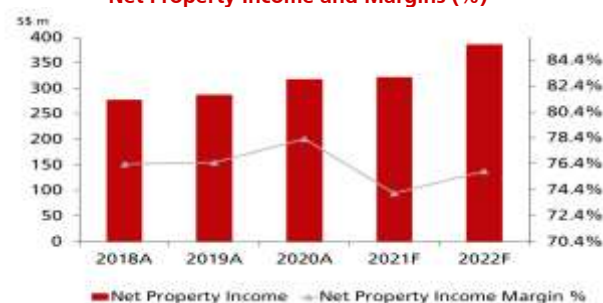
Offering high level of income visibility and stability. MINT has consistently delivered portfolio occupancy rates averaging around 90%, which have been steady across market cycles. This is mainly due to its diversified asset portfolio and a wide base of tenants in different industries. There is therefore no industry-specific concentration risk, meaning that performance is likely to remain stable across market cycles.

Industrial sector projected to turn around in 2020. We believe that the industrial sector will bottom out in 1H2020 after the large supply of new industrial properties that were completed last year are taken up. That said, the COVID-19 outbreak will likely bring this growth to a halt. With downside risks from an economic recession in 2020, we believe that rents are likely to turn down in 2021.

Improving portfolio quality through strategic moves in the data-centre space. We like incremental steps to pivot towards more datacenter contributions in its portfolio. We see a concerted effort to upgrade its portfolio to better-specification properties (data centres, high-specification industrial properties, business parks), which will help MINT to maintain its premium P/NAV multiples to the market. Concerns on the weakness from its flatted factory portfolio will dissipate over time as its exposure to this asset class gets diluted on the back of its acquisition activities. We like it that management is taking incremental steps towards diversification which aims to limit earnings volatility for investors.

Development opportunities with upside in NAV and earnings in the medium term. The manager has over time looked within its portfolio and enhanced its value through planned redevelopments - Telok Blangah cluster redeveloped into a built-to-suit project for Hewlett Packard, 30A Kallang Place property on top of a carpark, and is commencing its biggest redevelopment of Kolam Ayer Cluster into a high-specification industrial property. These developments would be value-accretive to MINT, allowing it to extract unutilised plot ratios and additional gross floor area (GFA) for lease. On its book is another opportunity with Kaki Bukit cluster, which when executed should drive significant upside in valuations and earnings in the medium term.

Net Property Income and Margins (%)



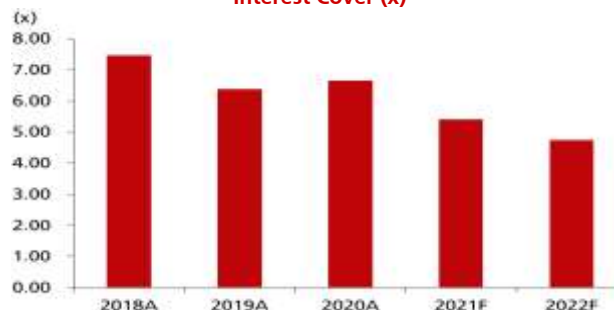
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Mapletree Industrial Trust

Balance Sheet:

Low gearing allows for opportunistic acquisitions and developments. Gearing is projected to rise to c.36% (see-through basis of 39%) in FY21-22F, implying that the manager may look to re-start its dividend reinvestment scheme to pare it down over time.

Stable weighted average debt-to-maturity. MINT has a well-staggered debt profile with most debt due for repayment only from FY21 onwards. With c.70% of its borrowings on fixed interest rates, MINT is well protected against future increases in interest rates.

Share Price Drivers:

Better-than-expected rental reversions/acquisitions will boost earnings and share price. We are forecasting modest rental uplifts of 0-3%. The REIT's ability to maintain or beat expectations will mean upside to our/consensus forecasts. In addition, acquisitions or further development projects which are accretive to earnings will likely result in upside to its TP and share price.

Key Risks:

Rising interest rates. An increase in refinancing rates will negatively impact distributions. However, MINT has minimised the impact as c.73% of its interest cost has been fixed.

Economic risk. A deterioration in the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back on production and require less space. Industrial rents have a strong historical correlation with GDP growth.

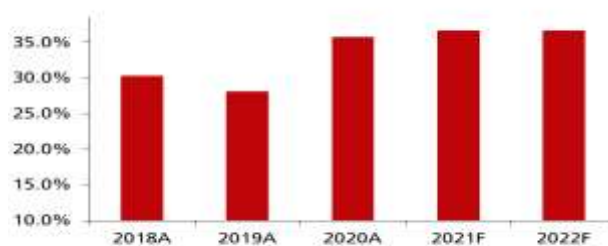
Environment, Social, Governance:

MINT's third Sustainability Report for its Singapore portfolio has enabled it to accumulate a moderate disclosure score with clarity and transparency in ESG and financial reports. As part of MINT's endeavours towards sustainability, the process of attaining or renewing green building certifications for the REIT's portfolio is reviewed during its monthly engineering forums. Total building electricity consumption has decreased by 3.2% and total building greenhouse gas emissions have been reduced by 4.4% from FY17/18.

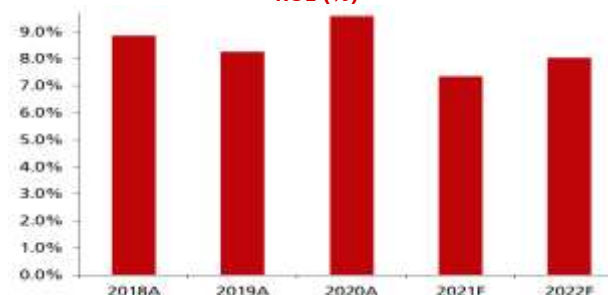
Company Background

Mapletree Industrial Trust (MINT) is a real estate investment trust which invests primarily in income-producing industrial assets located in Singapore. Its portfolio includes a diverse mix

Aggregate Leverage (%)



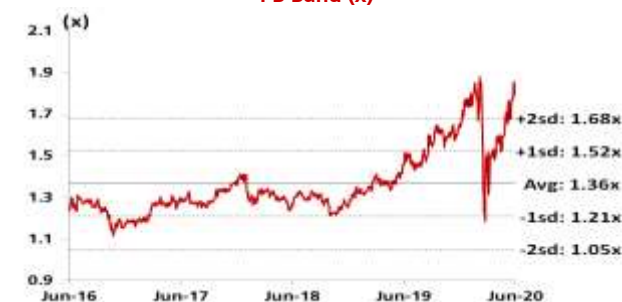
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

of business parks, hi-tech industrial buildings, ramp-up buildings and flatted factories.

Mapletree Industrial Trust
Key
Income Statement (\$\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Gross revenue	363	376	406	435	509
Property expenses	(85.6)	(88.3)	(87.8)	(112)	(123)
Net Property Income	278	288	318	322	386
Other Operating expenses	(31.1)	(33.7)	(35.8)	(41.9)	(44.5)
Other Non Opg (Exp)/Inc	0.02	0.0	0.0	0.0	0.0
Associates & JV Inc	21.8	26.1	76.5	41.6	34.8
Net Interest (Exp)/Inc	(33.0)	(39.9)	(42.4)	(51.9)	(72.0)
Exceptional Gain/(Loss)	(0.2)	0.0	0.0	0.0	0.0
Net Income	235	240	316	270	305
Tax	0.0	0.0	(0.1)	(4.8)	(9.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	235	240	316	265	295
Total Return	301	271	367	265	295
Non-tax deductible Items	(84.7)	(39.4)	(102)	5.63	5.69
Net Inc available for Dist.	216	232	265	271	300
Growth & Ratio					
Revenue Gth (%)	6.7	3.5	7.9	7.1	17.2
N Property Inc Gth (%)	8.1	3.7	10.5	1.3	19.9
Net Inc Gth (%)	17.3	2.3	31.6	(16.2)	11.1
Dist. Payout Ratio (%)	100.0	100.0	99.4	100.0	100.0
Net Prop Inc Margins (%)	76.4	76.5	78.4	74.1	75.9
Net Income Margins (%)	64.7	63.9	77.9	61.0	57.9
Dist to revenue (%)	59.4	61.6	65.4	62.3	59.0
Managers & Trustee's fees	8.6	9.0	8.8	9.6	8.7
ROAE (%)	8.8	8.2	9.6	7.3	8.0
ROA (%)	5.9	5.5	6.5	4.7	4.8
ROCE (%)	6.4	5.9	5.9	5.0	5.6
Int. Cover (x)	7.5	6.4	6.7	5.4	4.7

Contribution from acquisitions.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Mar	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	98.8	99.6	102	103	102
Property expenses	(23.0)	(21.7)	(21.9)	(20.8)	(23.5)
Net Property Income	75.9	77.9	80.0	81.9	78.3
Other Operating expenses	(8.7)	(8.9)	(9.1)	(9.2)	(8.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	22	26	77	42	35
Net Interest (Exp)/Inc	(10.3)	(10.5)	(11.3)	(9.9)	(10.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	70.0	62.8	64.0	69.6	120
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	70.0	62.8	64.0	69.6	120
Total Return	101	62.8	64.0	69.6	171
Non-tax deductible Items	(40.9)	0.42	(0.5)	(6.8)	(102)
Net Inc available for Dist.	59.9	63.2	63.5	69.4	69.2
Growth & Ratio					
Revenue Gth (%)	6	1	2	1	(1)
N Property Inc Gth (%)	6	3	3	2	(4)
Net Inc Gth (%)	22	(10)	2	9	72
Net Prop Inc Margin (%)	76.8	78.3	78.5	79.8	76.9
Dist. Payout Ratio (%)	200.0	200.0	200.0	200.0	200.0

Balance Sheet (\$\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Investment Properties	3,908	4,336	4,473	5,573	5,673
Other LT Assets	183	195	645	345	345
Cash & ST Invt	37.4	40.0	53.4	85.0	113
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	26.0	35.3	16.1	20.8	24.4
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	4,154	4,607	5,188	6,024	6,156
ST Debt	185	75.0	1.28	91.3	191
Creditor	103	105	94.8	127	149
Other Current Liab	0.27	0.48	4.93	9.74	14.8
LT Debt	1,033	1,322	1,458	2,063	2,068
Other LT Liabilities	52.7	57.7	68.4	68.4	68.4
Unit holders' funds	2,780	3,048	3,560	3,664	3,664
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	4,154	4,607	5,188	6,024	6,156
Non-Cash Wkg. Capital	(77.4)	(69.8)	(83.6)	(116)	(139)
Net Cash/(Debt)	(1,181)	(1,357)	(1,406)	(2,070)	(2,146)
Ratio					
Current Ratio (x)	0.2	0.4	0.7	0.5	0.4
Quick Ratio (x)	0.2	0.4	0.7	0.5	0.4
Aggregate Leverage (%)	30.3	28.1	35.8	36.7	36.7
Z-Score (X)	2.7	2.5	2.6	2.5	2.2

Gearing to remain at optimal level.

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	235	271	367	270	305
Dep. & Amort.	0.01	0.04	0.06	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	(4.8)
Associates & JV Inc/(Loss)	(21.8)	(26.1)	(76.5)	(41.6)	(34.8)
Chg in Wkg.Cap.	3.15	(7.9)	3.06	27.5	18.2
Other Operating CF	29.1	7.81	(6.9)	(294)	6.13
Net Operating CF	246	245	287	(38.1)	289
Net Invt in Properties	(101)	(384)	(50.1)	(1,100)	(101)
Other Invt (net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(173)	0.0	(394)	300	0.0
Div from Assoc. & JVs	0.0	14.6	17.8	41.6	34.8
Other Investing CF	0.0	0.0	(2.8)	0.0	0.0
Net Investing CF	(274)	(370)	(429)	(758)	(65.8)
Distribution Paid	(212)	(204)	(219)	(277)	(300)
Chg in Gross Debt	122	174	27.5	695	105
New units issued	153	199	394	410	0.0
Other Financing CF	(35.2)	(41.5)	(45.9)	0.0	0.0
Net Financing CF	28.1	127	156	828	(195)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(0.6)	2.59	13.4	31.6	28.2
Operating CFPS (S cts)	12.9	13.2	13.4	(2.8)	11.5
Free CFPS (S cts)	7.67	(7.3)	11.2	(49.1)	8.00

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Jul 19	2.29	2.50	BUY
2:	18 Jul 19	2.33	2.50	BUY
3:	24 Jul 19	2.25	2.50	BUY
4:	25 Sep 19	2.49	2.75	BUY
5:	23 Oct 19	2.52	2.75	BUY
6:	22 Jan 20	2.77	3.00	BUY
7:	17 Apr 20	2.43	2.70	BUY
8:	28 Apr 20	2.53	2.70	BUY

Source: DBS Bank

Analyst: Derek TAN

Dale LAI

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 1 Jul 2020 17:24:31 (SGT)

Dissemination Date: 1 Jul 2020 18:35:02 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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