

Mapletree Industrial Trust

Bloomberg: MINT SP | Reuters: MAPI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Jul 2023

BUY

Last Traded Price (26 Jul 2023): S\$2.29 (STI : 3,304.96)

Price Target 12-mth: S\$2.60 (13% upside) (Prev S\$2.70)

Analyst

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What's New

- 1QFY24 DPU of 3.39 Scts (-2.6% y-o-y, flat q-o-q) in line
- Overall operational metrics remain robust; eye on expiry of a major tenant (AT&T) in the USA
- Financial metrics stable with minimal debt expiries in FY24F
- Estimates tweaked by -1% to -3%, TP revised to S\$2.60, BUY

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2022A	2023A	2024F	2025F
Gross Revenue	610	685	675	693
Net Property Inc	472	518	513	526
Total Return	431	282	350	364
Distribution Inc	351	357	361	371
EPU (S cts)	16.6	14.3	12.6	12.8
EPU Gth (%)	46	(14)	(12)	2
DPU (S cts)	13.8	13.6	13.0	13.1
DPU Gth (%)	10	(2)	(4)	1
NAV per shr (S cts)	195	185	186	186
PE (X)	13.8	16.0	18.2	17.8
Distribution Yield (%)	6.0	5.9	5.7	5.7
P/NAV (x)	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	33.7	34.6	34.6	34.7
ROAE (%)	9.5	7.8	6.8	6.9

Distn. Inc Chng (%):			(3)	(1)
Consensus DPU (S cts):			13.5	13.7
Other Broker Recs:	B: 8	S: 1	H: 8	

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

Navigating near term bends

Investment Thesis:

Diversified "new economy" landlord with a data-center spin.

Mapletree Industrial Trust ("MINT") is a diversified new economy focused REIT with a portfolio of well-located flatted factories, and high-specification properties and datacenters ("DC") in the USA and Japan. The REIT's strategic pivot to be a major DC player has driven an expansion in its premium to book valuation as the REIT's earnings visibility and growth potential is enhanced.

Redevelopment upside drives NAV upside. Its portfolio of flatted factories in Singapore can be seen as an attractive "landbank" for redevelopment over time. MINT has over the years embarked on a redevelopment journey on selected assets, extracting untapped GFA, thus driving shareholder value through NAV and DPU uplifts as these assets are converted to higher quality specifications properties. There is redevelopment potential also for selected assets in the USA which the REIT may look to reposition.

Steering past near term tenancy expiries. MINT's historical steady DPU growth profile is a welcome trait but the manager will be looking to plot its course around the expiry of a major tenant – AT&T (c.5.3% of revenues) - in phases over FY24F/25F. We see opportunities for the manager to extract value through redevelopments or reletting to other users.

Maintain Buy, TP S\$2.60 based on DCF. With a slight tweak to estimates, our TP is adjusted to S\$2.60 and we see value despite the stock trading at a P/B of 1.2x. This is justified as regular redevelopments would boost its asset values to close the valuation gap. Stock offers an attractive yield of c.6.0%.

Key Risks

Return of space from its US DCs. This could bring about earnings downside risk and an overhang for the stock.

At A Glance

Issued Capital (m shrs)	2,739
Mkt. Cap (S\$m/US\$m)	6,273 / 4,733
Major Shareholders (%)	
Temasek Holdings Pte	26.2
Free Float (%)	73.8
3m Avg. Daily Val (US\$m)	7.6
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

Navigating near term bends

(+) 1QFY24 results in line; DPU of 3.39 Scts (-2.9% y-o-y, flat q-o-q) in line with forecast.

MINT's 1QFY24 gross revenues and net property income of S\$170.6m (+1.7% y-o-y, -0.3 q-o-q) and S\$130.8m (+0.7% y-o-y, +1.5% q-o-q), came in line with expectations. This was mainly driven by the organic improvement of its Singapore property portfolio with higher rentals and occupancy achieved for most industrial clusters in Singapore. Overall margins were stable as a slight uptick q-o-q to 76.7%, largely due to higher operational expenses incurred last quarter. Overall margins were steady on a y-o-y basis. Interest costs increased due to higher all-in cost of debt due to rising base rates (3.5% in Jun'23, flat q-o-q). As a result, distributable income dipped by 2.5% y-o-y, translating to a DPU of 3.39 Scts, -2.9% y-o-y but flat q-o-q. We note that 1QFY24 DPU was partially boosted by divestment gains on 26A Ayer Rajah and tax-exempt income withheld which is not expected to be recurring in the coming quarters.

(+) Slightly higher gearing levels; stable overall cost of debt.

MINT's overall financial metrics remain strong. While we note that gearing inched higher to 38.2% (vs c.37.4% a quarter ago), it is still comfortable at <40%. Average debt tenure is stable at 3.7 years with manageable expiries at <15% of overall debt expiring in the next 2 financial years. Interest coverage ratios also remain comfortable at 4.3x (vs. 4.5x a quarter ago) with a high fixed debt ratio of c.78%. We note that overall interest rates have remained flat q-o-q to 3.5% and within estimates but are expected to trend lower from the introduction of Japanese yen loans to fund its recent acquisitions in Japan. We estimate that overall interest rates could drop marginally which will help to compensate for any potential increase in cost for its USD debt (c.71% of overall debt currency profile).

Our thoughts:

(+/-) Operating metrics shine; occupancy and reversionary trends surprise on the upside.

Overall operating results continue to shine, with overall portfolio occupancy rates seeing a slight drop to 93.3% but still close to multi-year highs. The q-o-q fall were from its business park portfolio (c. 83.5% vs 87.5% previously) and the datacenters which saw occupancy rates drop to 93.1% vs 94.3% a quarter ago. Occupancy at its high specification

properties also fell from 87.5% to 85.2% due to due to Inclusion of 165 Kallang Way (achieved TOP, "Kolam Ayer cluster previously") which has yet to be physically occupied yet.

Portfolio rental reversions were mixed with overall at a strong c.5%, which mainly came from its flatted factory, Hi-Specs and stack-up/ramp-up properties.

(-) Keeping a close watch on expiry of key tenant in FY24/25F.

In the immediate term, attention will likely turn towards the phased expiry of lease of AT&T in the coming 2 years. This lease contributes c.5.3% of gross rental income as of June-23. We understand that AT&T currently occupies three datacenters and will most likely return the space to MINT in 3QFY24 and 3QFY25 respectively. While faced with slight earnings downside risk in the immediate term, we seek comfort that the Manager is actively looking to re-let the space and is in advanced negotiations with other tenants to take up expiring spaces or could look to divest or reposition the property for other uses. In our estimates, we have moderated our earnings forecasts marginally in FY24F and FY25F to account for the potential vacant spaces that could be a near term earnings drag for MINT. The potential transitory loss of income could be compensated by (i) incremental income from the lease progress of Hi-Tech Park @ Kallang Way and (ii) contribution from its Japan datacenter portfolio.

Our recommendation:

With revised earnings, our TP is adjusted to S\$2.60 and we maintain our BUY call on MINT. We like MINT for its attractive yields of c.6.0%. While investors will likely focus on near term risk factors from the expiry of the AT&T lease, we believe this has been well flagged out and priced in. Based on our estimates, at zero income contribution from AT&T, MINT's headline yield is expected to be c.5.1% to 5.3%, slightly above its 5-year historical mean. MINT currently trades at a 1.2x P/NAV with a forward yield of 5.7%, which we believe is attractive.

Mapletree Industrial Trust

Company Background

Emerging data centre play. Mapletree Industrial Trust (MINT) invests primarily in income-producing industrial assets located in Singapore. Its portfolio includes a diverse mix of business parks, hi-tech industrial buildings, ramp-up buildings, flatted factories, and

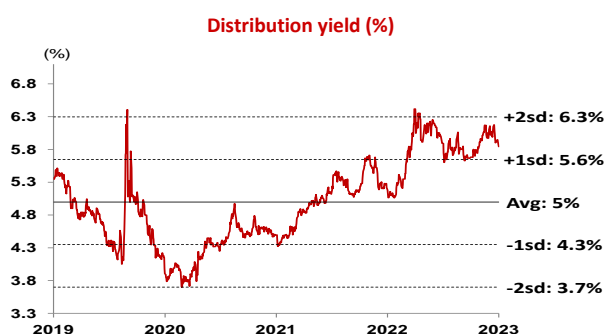
data centres. The REIT has made a concerted effort to upgrade its portfolio specifications through the strategic redevelopment of its flatted factory assets and acquisitions of data centres, uplifting its property attributes, resilience, and tenant diversity.

Quarterly / Interim Income Statement (\$m)

FY Mar	1Q2023	4Q2023	1Q2024	% chg yoy	% chg qoq
Gross revenue	168	171	171	1.7	(0.3)
Property expenses	(37.9)	(42.2)	(39.8)	5.0	(5.7)
Net Property Income	130	129	131	0.7	1.5
Other Operating expenses	(16.7)	(17.2)	(17.2)	3.5	0.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	9.33	39.1	9.09	(2.6)	(76.8)
Net Interest (Exp)/Inc	(19.9)	(27.6)	(25.5)	(28.7)	7.3
Exceptional Gain/(Loss)	3.76	0.0	0.0	nm	-
Net Income	106	123	97.2	(8.8)	(21.2)
Tax	(5.4)	(14.5)	(3.1)	(42.6)	(78.6)
Minority Interest	(2.4)	(2.3)	(2.4)	nm	1.1
Net Income after Tax	98.7	106	91.7	(7.1)	(13.9)
Total Return	98.7	25.9	91.7	(7.1)	254.5
Non-tax deductible Items	(6.6)	91.3	(1.8)	(72.5)	nm
Net Inc available for Dist.	92.1	87.2	89.9	(2.5)	3.1
Ratio (%)					
Net Prop Inc Margin	77.4	75.3	76.7		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Distribution Yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Mapletree Industrial Trust

Income Statement (\$m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Gross revenue	447	610	685	675	693
Property expenses	(96.2)	(138)	(167)	(162)	(167)
Net Property Income	351	472	518	513	526
Other Operating expenses	(42.5)	(58.0)	(67.0)	(62.8)	(63.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	44.8	116	67.9	36.7	37.6
Net Interest (Exp)/Inc	(52.6)	(70.8)	(96.9)	(107)	(108)
Exceptional Gain/(Loss)	0.0	2.64	3.76	0.0	0.0
Net Income	301	462	426	380	391
Tax	(33.4)	(30.2)	(23.9)	(20.5)	(17.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	(8.4)	(9.5)	(9.5)	(9.5)
Net Income After Tax	267	424	392	350	364
Total Return	164	431	282	350	364
Non-tax deductible Items	131	(107)	46.4	7.01	7.05
Net Inc available for Dist.	295	351	357	361	371
Growth & Ratio					
Revenue Gth (%)	10.2	36.4	12.3	(1.5)	2.6
N Property Inc Gth (%)	10.4	34.5	9.7	(1.0)	2.5
Net Inc Gth (%)	(15.5)	58.5	(7.4)	(10.8)	4.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.5	77.4	75.6	76.0	75.9
Net Income Margins (%)	59.8	69.4	57.3	51.9	52.6
Dist to revenue (%)	66.0	57.5	52.1	53.5	53.6
Managers & Trustee's fees	9.5	9.5	9.8	9.3	9.2
ROAE (%)	7.2	9.5	7.8	6.8	6.9
ROA (%)	4.6	5.7	4.6	4.0	4.0
ROCE (%)	4.8	5.3	5.1	4.9	5.0
Int. Cover (x)	5.9	5.9	4.7	4.2	4.3

Source: Company, DBS Bank

Mapletree Industrial Trust

Quarterly Income Statement (\$\$m)

FY Mar	1Q2023	2Q2023	3Q2023	4Q2023	1Q2024
Gross revenue	168	176	170	171	171
Property expenses	(37.9)	(45.2)	(41.6)	(42.2)	(39.8)
Net Property Income	130	130	129	129	131
Other Operating	(16.7)	(16.6)	(16.6)	(17.2)	(17.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	9.33	9.05	10.4	39.1	9.09
Net Interest (Exp)/Inc	(19.9)	(23.7)	(25.8)	(27.6)	(25.5)
Exceptional Gain/(Loss)	3.76	0.0	0.0	0.0	0.0
Net Income	106	99.1	96.8	123	97.2
Tax	(5.4)	(2.6)	(1.4)	(14.5)	(3.1)
Minority Interest	(2.4)	(2.4)	(2.4)	(2.3)	(2.4)
Net Income after Tax	98.7	94.1	93.0	106	91.7
Total Return	98.7	94.1	93.0	25.9	91.7
Non-tax deductible Items	(6.6)	(5.1)	(4.6)	91.3	(1.8)
Net Inc available for Dist.	92.1	89.0	88.4	87.2	89.9
Growth & Ratio					
Revenue Gth (%)	2	5	(3)	0	0
N Property Inc Gth (%)	5	0	(1)	0	1
Net Inc Gth (%)	(33)	(5)	(1)	14	(14)
Net Prop Inc Margin (%)	77.4	74.3	75.6	75.3	76.7
Dist. Payout Ratio (%)	200.0	200.0	200.0	200.0	200.0

Balance Sheet (\$\$m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Investment Properties	5,692	7,661	7,659	8,169	8,179
Other LT Assets	451	626	709	709	709
Cash & ST Invt	60.5	150	147	141	140
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	19.7	26.8	26.9	32.3	33.2
Other Current Assets	169	16.6	5.45	5.45	5.45
Total Assets	6,392	8,480	8,547	9,057	9,067
ST Debt	369	387	176	176	176
Creditor	102	143	159	197	203
Other Current Liab	6.45	5.23	3.33	20.8	17.7
LT Debt	1,902	2,552	2,705	2,960	2,965
Other LT Liabilities	117	114	128	128	128
Unit holders' funds	3,895	5,279	5,376	5,575	5,578
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	6,392	8,480	8,547	9,057	9,067
Non-Cash Wkg. Capital	79.9	(104)	(130)	(180)	(182)
Net Cash/(Debt)	(2,211)	(2,790)	(2,734)	(2,995)	(3,001)
Ratio					
Current Ratio (x)	0.5	0.4	0.5	0.5	0.4
Quick Ratio (x)	0.2	0.3	0.5	0.4	0.4
Aggregate Leverage (%)	34.7	33.7	34.6	34.6	34.7
Z-Score (X)	2.3	2.3	2.3	2.3	2.3

Source: Company, DBS Bank

Mapletree Industrial Trust

Cash Flow Statement (\$m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	301	439	291	380	391
Dep. & Amort.	0.07	0.07	0.06	0.0	0.0
Tax Paid	0.0	(2.5)	(8.7)	(3.1)	(20.5)
Associates & JV Inc/(Loss)	(44.8)	(116)	(67.9)	(36.7)	(37.6)
Chg in Wkg.Cap.	(66.4)	87.5	10.1	33.2	4.35
Other Operating CF	47.3	3.85	9.25	9.82	9.95
Net Operating CF	237	412	234	383	347
Net Invnt in Properties	(569)	(1,780)	(129)	(510)	(10.4)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	42.2	25.9	28.3	36.7	37.6
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(527)	(1,754)	(101)	(473)	27.2
Distribution Paid	(276)	(306)	(225)	(361)	(371)
Chg in Gross Debt	221	628	(24.4)	255	5.00
New units issued	404	1,108	0.0	200	0.0
Other Financing CF	(50.8)	(83.7)	(101)	(9.5)	(9.5)
Net Financing CF	298	1,347	(350)	84.4	(376)
Currency Adjustments	(0.2)	85.2	1.99	0.0	0.0
Chg in Cash	7.08	89.2	(215)	(5.8)	(1.1)
Operating CFPS (S cts)	12.9	12.7	8.17	12.6	12.1
Free CFPS (S cts)	(14.1)	(53.7)	3.83	(4.6)	11.9

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	27 Oct 22	2.25	2.70	BUY
2:	28 Apr 23	2.38	2.70	BUY

Source: DBS Bank

Analyst: Derek TAN

Dale LAI

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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

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