

Mapletree Industrial Trust (MINT SP)

Hi-Tech Gains

BUY

Share Price SGD 1.95
 12m Price Target SGD 2.20 (+13%)
 Previous Price Target SGD 2.25

Results mixed, but fundamentals unchanged

2Q19 DPU of SGD3.01cts rose 0.3% YoY and was in line with the street but slightly below our estimate. DPU was driven by rising hi-tech contributions, even as the dip in Singapore occupancies mirrored 1Q on the earlier supply-side pressures. Fundamentals however remain intact, backed by stronger leasing demand, growth visibility from the completed Kallang AEI, and a more resilient portfolio following its hi-tech asset investments and US diversification. We adjusted our model for lower business parks contribution and cut DPU by 1-2%. Our DDM-based TP is trimmed to SGD2.20 (COE: 7.2%, LTG: 1.5%). MINT's low 35.1% gearing, SGD650m debt headroom and clear acquisition-growth potential could provide upside to our 3-year 5.0% DPU CAGR forecast. BUY.

Hi-tech contributions offset lower SG occupancies

2Q19 revenue and NPI rose QoQ on the back of rising contribution from: 1) HP build-to-suit (BTS) phase 2; 2) recently completed Sunview 1 BTS data centre; and 3) its 40% interest in the 14 US data centre portfolio acquired in Dec 2017. Portfolio occupancy dipped QoQ from 88.3% to 86.7% on its Singapore assets (down from 87.8% to 86.2%) with lower occupancies except for business parks (from 79.1% to 79.6%) and light industrial (from 96.6% to 97.5%). Occupancy for the high-specs segment fell from 88.7% to 84.4% with the lease termination at 7 Tai Seng in preparation for upgrading works. This will be completed in 2H 2019 and fully-leased to an established infocomm tenant for 25 years. Management is guiding for the yield-on-cost to exceed 6%.

Sector bottoming out, uptick on rents

We see similarities with 1Q, with competing industrial supply and uneven recovery in the manufacturing sector, even as overall rental growth for its Singapore portfolio accelerated to +5.7% YoY from +3.6% YoY in 1Q. Management is seeing a bottoming out in rents across its properties, and will continue to recalibrate its leases to retain higher-quality tenancies. The AEI at 30A Kallang Place has gained leasing momentum post-completion in Feb 2018 (pre-commitment jumped QoQ from 44% to 75% at end-Sep 2018) with leases to commence in 1Q 2019. New tenants are in infocomm, tech and production engineering, and include names like Quann Asia Pacific, Diebold Nixdorf and KONE.

Company Description

Mapletree Industrial Trust engages in the provision of industrial real estate solutions and investment in industrial properties.

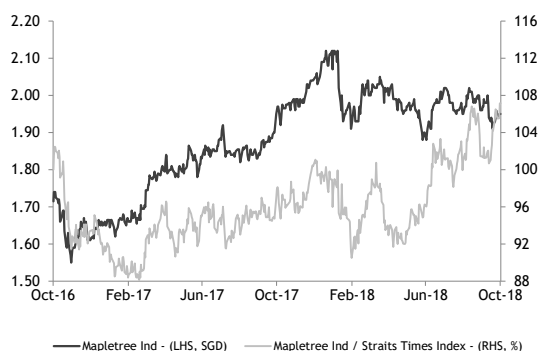
Statistics

52w high/low (SGD)	2.12/1.88
3m avg turnover (USDm)	4.1
Free float (%)	65.4
Issued shares (m)	1,802
Market capitalisation	SGD3.5B
	USD2.5B

Major shareholders:

Temasek Holdings	34.2%
Schroder Investment	7.0%
AIA Singapore Pte Ltd.	3.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(3)	(1)
Relative to index (%)	6	5	9

Source: FactSet

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	341	363	379	404	425
Net property income	257	278	294	311	327
Core net profit	200	235	239	252	265
Core EPU (cts)	11.1	12.8	12.7	13.3	14.0
Core EPU growth (%)	(0.5)	15.2	(1.0)	5.2	5.1
DPU (cts)	11.4	11.8	12.7	13.3	14.0
DPU growth (%)	2.2	3.2	7.9	5.2	5.1
P/NTA (x)	1.3	1.3	1.3	1.2	1.1
DPU yield (%)	6.4	5.8	6.5	6.8	7.2
ROAE (%)	10.8	11.3	8.4	8.5	8.4
ROAA (%)	5.4	5.9	5.7	5.8	5.8
Debt/Assets (x)	0.29	0.29	0.31	0.29	0.28
Consensus DPU	-	-	12.2	13.0	13.2
MKE vs. Consensus (%)	-	-	4.0	2.6	6.0

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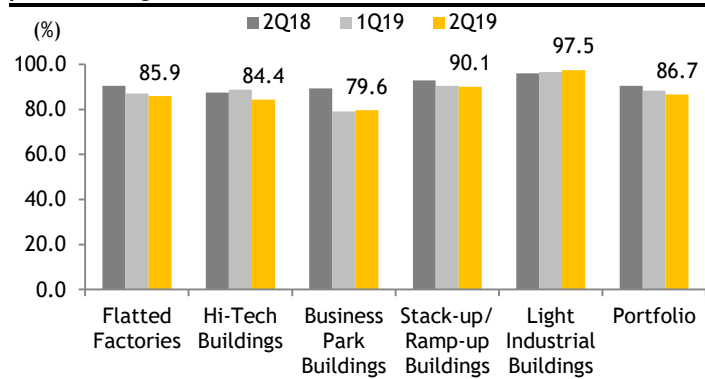
Fig 1: Summary financials 2Q19A comparison

FYE 31 Mar	2Q18 (SGD m)	1Q19 (SGD m)	2Q19 (SGD m)	Change (% YoY)	(% QoQ)	YTD18 (SGD m)	% of FYE	FY19E (SGD m)
Gross revenue	92.6	91.5	92.2	(0.4)	0.8	183.7	47.5	387.1
Property expenses	(21.9)	(22.0)	(21.6)	(1.1)	(1.8)	(43.7)	50.0	(87.3)
Net property income	70.7	69.5	70.6	(0.1)	1.6	140.0	46.7	299.8
Borrowing costs	(7.8)	(9.4)	(10.3)	33.0	10.2	(19.7)	50.5	(38.9)
Distributable income to unitholders	54.0	56.9	56.7	4.9	(0.4)	113.6	46.4	244.8
Distribution per unit	3.00*	3.00	3.01	0.3	0.3	6.0	46.3	12.98
NAV per unit (SGD)	1.41	1.48	1.48					
Aggregate leverage (%)^	30.0	35.0	35.1	510	10			
All-in financing cost (%)^	2.9	3.0	3.0	10	0			
Occupancy (%)^	90.4	88.3	86.7	(370)	(160)			
Rental growth (% YoY)	1.0	3.6	5.7					
NPI margin (%)^	76.4	75.9	76.5	18	62			

^Change in basis points, *2Q18 DPU included SGD0.17cts from J&J pre-termination compensation

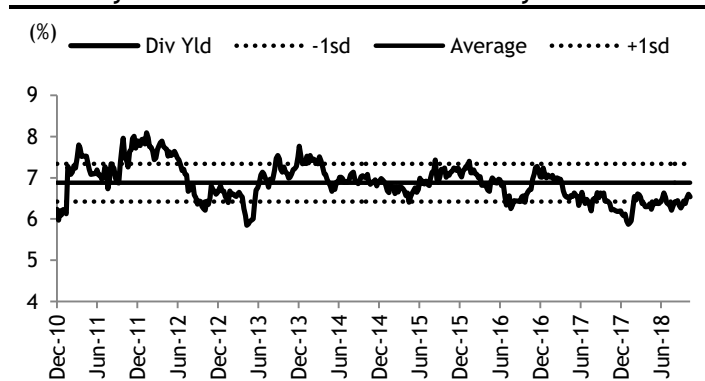
Source: Company data, Maybank Kim Eng

Fig 2: Singapore occupancies dipped QoQ except for business parks and light industrial



Source: Company data

Fig 4: Dividend yields are 1SD below their avg. Yield- spreads to SG 10-year could narrow on rental recovery



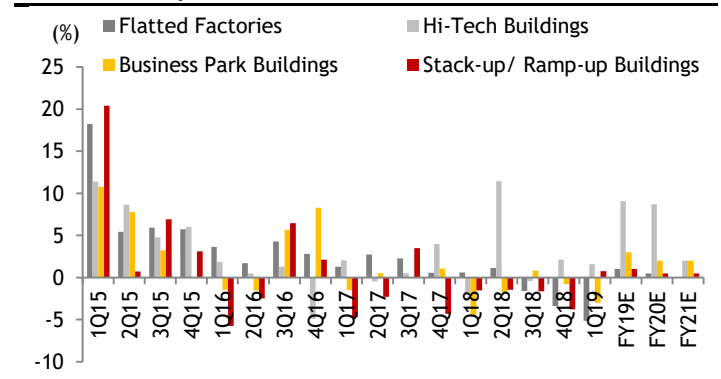
Source: Bloomberg

Fig 6: Forecast changes

	FY19E (old)	FY20E (old)	FY19E	FY20E	FY19E (% change)	FY20E (% change)
Revenue (SGDm)	387.1	408.6	379.0	404.3	-2.1	-1.0
NPI (SGDm)	299.8	314.1	293.8	311.0	-2.0	-1.0
DPU (SGD)	13.0	13.5	12.7	13.3	-2.3	-1.1

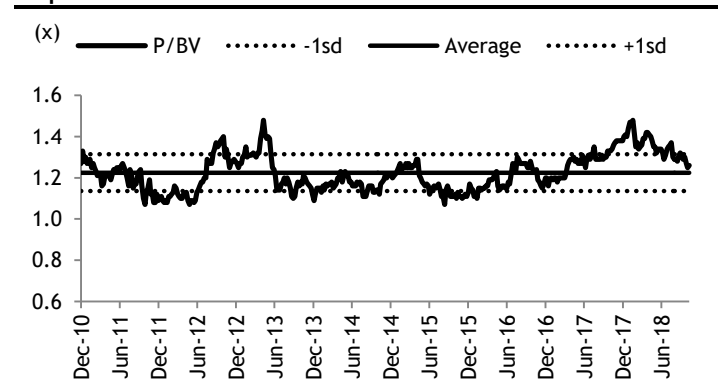
Source: Maybank Kim Eng

Fig 3: Rents have flattened out and are expected to lag the macro recovery



Source: Company data, Maybank Kim Eng

Fig 5: P/BV at the avg. suggesting appreciation in the value of its portfolio



Source: Bloomberg

Fig 7: S-REITs valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												17	18E	19E	20E	
Retail							13.7	25.6			0.98	5.9	5.8	5.9	6.1	31
Capita Mall Trust (CMT)	Hold	2.14	2.15	0.5	5.4	5.8	7.6	21.5	66	2.01	1.06	5.2	5.4	5.3	5.6	34
Frasers Ctr Trust (FCT)	Buy	2.23	2.55	14.3	5.5	19.8	2.1	2.1	58	2.08	1.07	5.3	5.5	5.7	5.9	29
Starhill Global (SGREIT)	Hold	0.67	0.65	(3.0)	6.8	3.8	1.5	1.3	65	0.91	0.73	7.3	6.8	7.1	7.1	35
SPH REIT	Hold	1.00	1.00	0.5	5.5	6.0	2.6	0.7	25	0.94	1.05	5.5	5.5	5.7	5.8	25
Retail & Office							9.5	20.6			0.98	5.5	5.6	5.6	5.8	36
Suntec REIT (SUN)	Hold	1.81	1.94	7.2	5.6	12.8	4.8	11.7	72	2.08	0.87	5.5	5.6	5.6	5.8	38
Mapletree Comm. (MCT)	Hold	1.61	1.50	(6.8)	5.6	(1.2)	4.6	8.9	66	1.49	1.08	5.5	5.6	5.6	5.8	35
Office							12.3	24.4			0.80	6.7	6.7	6.7	6.6	38
CapitaLand Comm. (CCT)	Hold	1.73	1.80	4.0	5.2	9.2	6.5	16.5	70	1.84	0.94	5.0	5.2	5.2	5.2	38
Keppel REIT (KREIT)	Hold	1.12	1.19	6.2	5.6	11.8	3.8	5.6	54	1.40	0.80	5.1	5.6	5.7	5.9	39
Frasers Comm. (FCOT)	NR	1.42					1.3	1.7	75	1.60	0.89	6.9	6.8	6.8	6.8	35
OUE Comm. (OUECT)	NR	0.47					0.7	0.6	17	0.81	0.58	10.0	9.2	9.0	8.4	40
Industrial							23.1	53.7			1.06	7.3	7.4	7.5	7.6	36
Ascendas REIT (AREIT)	Buy	2.56	3.05	19.1	6.7	25.8	8.0	27.8	81	2.07	1.24	6.2	6.7	6.9	6.7	36
Mapletree Ind. (MINT)	Buy	1.95	2.20	12.8	6.5	19.3	3.7	5.7	68	1.46	1.34	6.0	6.5	6.8	7.2	36
Mapletree Log. (MLT)	Hold	1.24	1.30	4.8	6.4	11.2	4.4	9.0	69	1.13	1.10	6.2	6.4	6.5	6.6	38
Cache Logistics Trust	Buy	0.72	0.95	31.9	8.8	40.7	0.8	1.8	90	0.70	1.02	9.2	8.8	9.0	9.4	36
AIMS AMP (AAREIT)	Buy	1.34	1.50	11.9	7.9	19.8	0.9	1.5	87	1.37	0.98	7.3	7.9	7.9	7.9	34
Keppel DC REIT (KDCREIT)	NR	1.36					1.8	5.4	75	1.01	1.35	5.2	5.6	5.9	6.2	32
ESR REIT	NR	0.49					1.6	0.9	58	0.68	0.72	7.8	8.1	8.3	8.8	30
Soilbuild BS REIT	NR	0.59					0.6	0.7	64	0.64	0.93	9.7	8.5	8.6	n.a.	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.3	72	0.54	0.78	n.a.	n.a.	n.a.	n.a.	38
Hospitality & Residential							8.7	7.9			0.85	6.9	7.0	7.3	7.5	34
Ascott Res. Trust (ART)	Hold	1.07	1.15	7.5	6.7	14.2	2.3	1.9	55	1.23	0.87	7.0	6.7	6.8	6.9	36
CDL HT (CDLHT)	Buy	1.49	1.80	20.8	6.5	27.3	1.8	2.9	63	1.52	0.98	6.2	6.5	6.7	6.9	33
OUE HT (OUEHT)	NR	0.66					1.2	1.0	52	0.76	0.86	7.8	7.7	8.2	8.9	39
Far East HT (FEHT)	Buy	0.61	0.75	23.0	7.0	29.9	1.1	1.0	41	0.87	0.70	6.5	7.0	7.3	7.7	40
Frasers HT (FHT)	Buy	0.70	0.80	14.3	7.0	21.3	1.3	0.5	39	0.78	0.90	6.9	7.0	7.3	7.3	34
Ascendas HT (AHT)	NR	0.81					0.9	0.4	64	1.01	0.80	n.a.	n.a.	n.a.	n.a.	24
Offshore REITs							15.2	15.8			0.86	8.2	7.7	8.0	8.2	34
Sasseur REIT	Buy	0.69	0.90	30.4	8.7	39.1	0.8	0.2	22	0.91	0.76	n.a.	8.7	9.0	9.3	33
Mapletree Greater China	NR	1.12					3.5	7.3	69	1.32	0.85	6.6	6.8	6.9	6.9	39
CapitaLand Retail China	NR	1.36					1.3	1.6	62	1.71	0.80	7.4	7.7	7.9	8.2	32
Fortune REIT (HKD)	NR	8.74					2.9	0.4	72	16.09	0.54	5.8	6.0	6.1	6.5	27
Lippo Malls Ind. RT	NR	0.25					0.7	1.2	63	0.30	0.82	13.9	10.6	10.6	11.0	35
Manulife REIT (USD)	NR	0.78					1.4	1.2	93	0.83	0.93	7.6	7.4	7.9	8.1	34
Keppel_KBS US REIT	NR	0.66					0.6	0.3	86	0.89	0.74	n.a.	9.1	9.5	9.6	34
IREIT Global	NR	0.74					0.5	0.1	31	0.69	1.06	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.67					0.3	0.0	37	0.83	0.80	n.a.	n.a.	n.a.	n.a.	34
Frasers Log. & Ind. (FLT)	NR	1.03					2.1	3.3	79	0.92	1.12	7.4	6.7	6.7	6.8	31
EC World REIT	NR	0.70					0.5	0.2	42	0.91	0.76	8.5	n.a.	n.a.	n.a.	29
Cromwell REIT (EUR)	NR	0.56					1.4	0.2	28	0.53	1.05	n.a.	7.6	8.3	8.2	35
Healthcare							2.6	2.5			1.36	6.0	5.9	6.2	6.2	36
Parkway Life REIT	NR	2.67					1.6	1.5	54	1.75	1.52	5.0	4.6	4.9	4.9	38
First REIT	NR	1.21					1.0	1.1	67	1.01	1.20	7.1	7.3	7.4	7.5	34
Total REITs							85	151			0.95	7.0	6.9	7.1	7.2	35
S-REIT yield spread																
FSTREI Index																2.8
SGS 10Y bond yield																5.4
																2.6

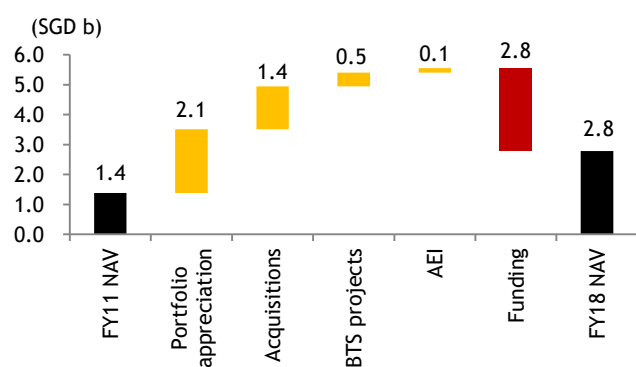
Prices as of 24 Oct 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- Third largest industrial sector S-REIT and backed by sponsor Mapletree Investments, wholly-owned by Temasek Holdings.
- Resilient portfolio due to well-diversified tenant base, and lower conversion risk given greater proportion of multi-tenant assets.
- Recently completed/ongoing redevelopment initiatives – build-to-suit (BTS) for Hewlett-Packard, 30A Kallang Place, Sunview Way BTS data centre, and 7 Tai Seng Drive – should in aggregate drive 5.0% DPU CAGR from FY18-21E.
- Strong balance sheet relative to peers with aggregate leverage at 35.1%, and an estimated SGD650-1,100 m in debt headroom to pursue inorganic growth opportunities.

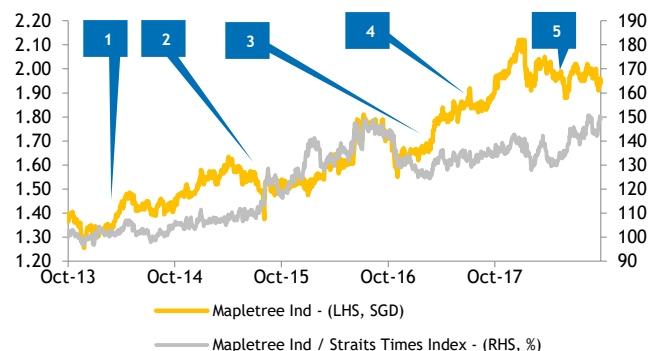
NAV growth (FY11-18)



Source: Company

Price Drivers

Historical share price trend



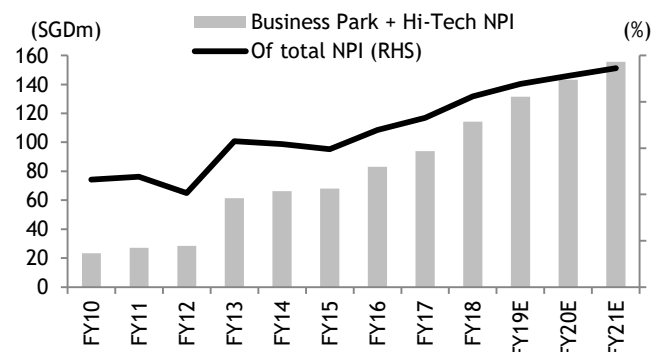
Source: Company, FactSet, Maybank Kim Eng

1. Mar-14: Signed agreement to develop SGD250m BTS for HP at existing Telok Blangah cluster in two phases (2H14-2H16, 1H15-1H17), its largest project to date.
2. Oct-15: Announced new SGD77m AEI at Kallang Basin 4 to develop a 14-storey high-tech building (at existing car park) to be completed in 1Q 2018.
3. Mar-17: Secured new SGD76m BTS data centre project targeted for completion in 2H 2018.
4. Oct-17: Announced maiden overseas acquisition of 14 US data centres at USD750m (SGD1.02b) through a 40:60 JV with its sponsor, pushing data-centre contributions from 6.5% to 16.6% of its AUM.
5. Apr-18: Executed novation (purchase) agreement for 7 Tai Seng Drive from sponsor and MLT to be upgraded into hi-tech building fully-leased to ICT tenant for 25 years.

Financial Metrics

- DPUs should be supported by contributions from ongoing redevelopment projects and AEI, and contribution from US data centres acquisition from 3Q18.
- We forecast business parks and high-specs buildings to generate 47% of MINT's NPI in FY21E, up from 41% in FY18.

NPI growth profile



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions.

Downside

- Prolonged slowdown in economic activity could reduce demand for industrial space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	15.6	17.3	15.4	14.6	13.9
P/BV (x)	1.3	1.4	1.3	1.2	1.1
P/NTA (x)	1.3	1.3	1.3	1.2	1.1
DPU yield (%)	6.4	5.8	6.5	6.8	7.2
FCF yield (%)	7.3	6.6	7.1	7.5	7.9
INCOME STATEMENT (SGD m)					
Revenue	340.6	363.2	379.0	404.3	424.9
Net property income	256.8	277.6	293.8	311.0	326.9
Management and trustee fees	(28.2)	(29.8)	(32.8)	(34.5)	(36.1)
Net financing costs	(27.3)	(34.1)	(38.9)	(42.4)	(43.9)
Associates & JV	0.0	21.8	16.1	16.6	17.0
Exceptionals	70.2	65.3	0.0	0.0	0.0
Other pretax income/expenses	0.4	1.0	1.0	1.0	1.0
Pretax profit	270.6	300.6	237.9	250.4	263.5
Income tax	0.0	(0.0)	(2.4)	(2.5)	(2.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	270.6	300.5	235.5	247.9	261.0
Distributable inc to unitholders	205.0	215.8	239.3	251.9	265.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	38.0	37.4	42.5	42.5	42.5
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.1	0.0	0.0	0.0
Investment properties	3,748.7	3,908.3	3,998.3	4,190.7	4,395.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	181.2	211.7	220.7	229.9
Other assets	11.4	27.4	27.4	27.4	27.4
Total assets	3,798.1	4,154.3	4,280.0	4,481.3	4,695.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	108.7	103.1	103.1	103.1	103.1
LT interest bearing debt	1,106.4	1,218.1	1,318.1	1,318.1	1,318.1
Other liabilities	50.1	53.0	53.0	53.0	53.0
Total Liabilities	1,265.3	1,374.2	1,474.2	1,474.2	1,474.2
Shareholders Equity	2,532.8	2,780.1	2,805.7	3,007.0	3,220.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,532.8	2,780.1	2,805.7	3,007.0	3,220.8
Total liabilities and equity	3,798.1	4,154.3	4,280.0	4,481.3	4,695.0
CASH FLOW (SGD m)					
Cash flow from operations	234.0	245.6	261.1	276.8	291.0
Capex	(0.0)	(0.1)	0.1	(0.0)	(0.0)
Acquisitions & investments	(103.8)	(101.1)	(95.0)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	(173.0)	16.1	16.6	17.0
Other investing cash flow	0.0	0.0	1.0	1.0	1.0
CF from investing activities	(103.9)	(274.2)	(77.8)	17.6	18.0
Dividends paid	(203.9)	(212.1)	(239.3)	(251.9)	(265.2)
Interest expense	(27.9)	(33.3)	(38.9)	(42.4)	(43.9)
Change in debt	85.2	120.3	100.0	0.0	0.0
Equity raised / (purchased)	0.0	153.2	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(146.5)	28.1	(178.2)	(294.4)	(309.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(16.4)	(0.6)	5.1	0.0	0.0

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.7	6.7	4.3	6.7	5.1
Net property income growth	4.8	8.1	5.8	5.9	5.1
Core net profit growth	1.3	17.4	1.7	5.3	5.3
Distributable income growth	3.6	5.3	10.9	5.3	5.3
Profitability ratios (%)					
Net property income margin	75.4	76.4	77.5	76.9	76.9
Core net profit margin	58.8	64.8	63.1	62.3	62.4
Payout ratio	102.4	91.8	100.0	100.0	100.0
DuPont analysis					
Total return margin (%)	79.4	82.7	62.1	61.3	61.4
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	10.8	11.3	8.4	8.5	8.4
ROAA (%)	5.4	5.9	5.7	5.8	5.8
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	3.0	2.9	3.0	3.2
Net gearing (%) (excl. perps)	42.2	42.5	45.5	42.4	39.6
Net interest cover (x)	8.3	7.2	6.7	6.5	6.6
Debt/EBITDA (x)	4.9	4.9	5.1	4.8	4.6
Capex/revenue (%)	0.0	0.0	nm	0.0	0.0
Net debt/ (net cash)	1,068.4	1,180.7	1,275.6	1,275.6	1,275.6
Debt/Assets (x)	0.29	0.29	0.31	0.29	0.28

Source: Company; Maybank

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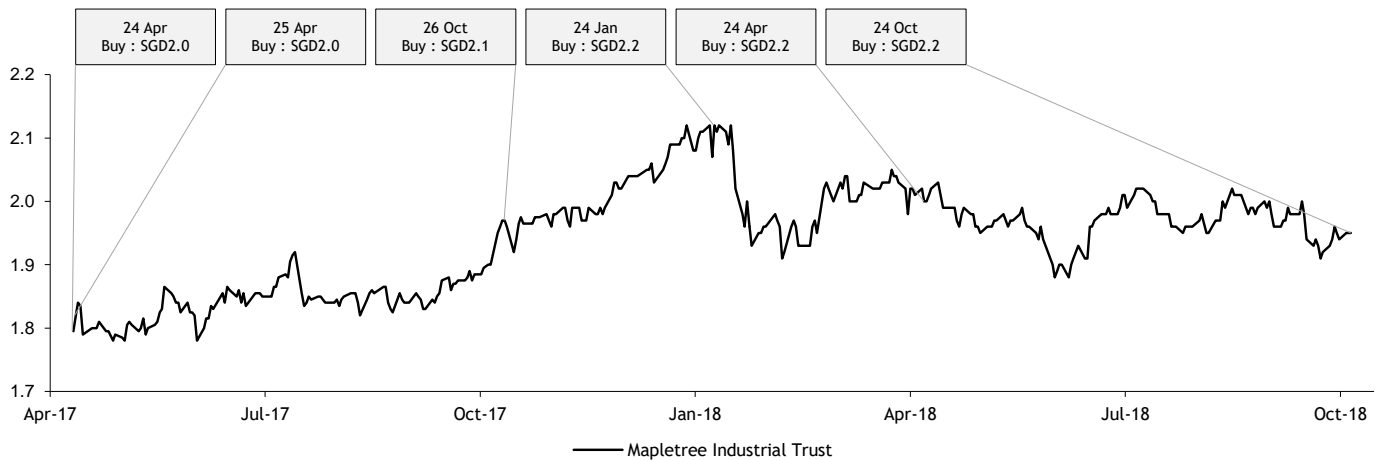
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