REITs

Singapore

Mapletree Industrial Trust (MINT SP)

Another Data Boost

Adding onto hi-tech, BUY

MINT has reinforced its hi-tech growth trajectory with its acquisition of the remaining 60% interest in its first US data centre asset portfolio. The investment at 6.8% NPI yield, lifts its overseas contribution from 24.4% to 32.5% and boosts its high-tech buildings exposure from 55.0% to 59.9%. We have kept forecasts and SGD2.95 DDM-based (COE: 6.5%, LTG: 2.0%) unchanged for now pending deal-closure. Valuations will continue to be supported by its positive growth fundamentals and more resilient portfolio, as DPU visibility has been further strengthened by its rising hi-tech asset investments and overseas diversification. These and SGD1.6-2.3b in debt headroom, could support other DPU-accretive deals. BUY.

Acquisition from sponsor at 6.8% NPI yield

It will acquire the remaining 60% interest in the 14 US data centres held by its sponsor for USD210.9m (~SGD299.5m), at a 0.7% discount to end-Mar 2020 valuations. The properties are freehold, primarily powered-shell and on triple-net leases. They are 97.4% leased to established ICT sector names; AT&T will rank as its second largest tenant at 6.5% of gross rental income, and backed by a WALE of 4.6 years with 97.8% of leases expecting 2% or above pa rental escalations. Post-deal, its freehold properties are expected to jump from 37.9% to 51.8% of AUM (by NLA).

Underpinned by strong growth fundamentals

The assets are well-placed and should strengthen MINT's footprint in the US's top 15 data centre markets. We continue to expect strong demand growth for data centre assets globally with rising operational needs. According to 451 Research, outsourced needs (in m sf) could increase at a 9.5% CAGR from 2018-24E with a 14.0% CAGR rise in cloud computing revenues. COVID-19 has likely accelerated the pace of cloud adoption from the increased usage of remote working, video streaming and online gaming, with higher data traffic needs bolstering leasing demand.

Deal is DPU and NAV accretive

The deal will be funded by a private placement exercise initiated on 23 Jun 2020 to raise no less than SGD350.0m (or up to 146.4m new units at SGD2.73-2.80 per unit). Management expects its pro-forma DPU and NAV to rise by 3.4% and 3.7% respectively, as leverage increases from 37.6% as of end-Mar 2020 to 38.7%. We will revise estimates following the deal closure, which is expected by end-Sep 2020.

FYE Mar (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	376	406	423	429	438
Net property income	288	318	331	337	344
Core net profit	241	316	325	326	327
Core EPU (cts)	12.6	14.9	14.8	14.8	14.8
Core EPU growth (%)	(1.3)	18.2	(1.2)	0.2	0.2
DPU (cts)	12.2	12.6	13.3	13.6	14.1
DPU growth (%)	3.6	3.0	5.9	2.5	3.4
P/NTA (x)	1.2	1.2	1.5	1.5	1.5
DPU yield (%)	5.8	5.2	4.7	4.8	5.0
ROAE (%)	9.3	11.1	9.0	9.1	9.2
ROAA (%)	5.5	6.5	6.2	6.2	6.1
Debt/Assets (x)	0.30	0.28	0.29	0.31	0.33
Consensus DPU	-	-	12.3	13.0	13.4
MKE vs. Consensus (%)	-	-	8.3	4.7	5.5

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BUY

Share Price	SGD 2.84
12m Price Target	SGD 2.95 (+4%)
Previous Price Target	*SGD 2.95*

Company Description

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

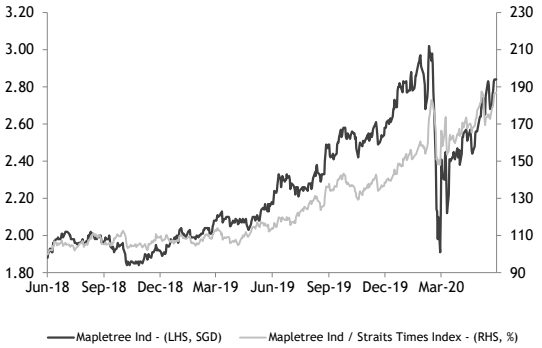
Statistics

52w high/low (SGD)	3.02/1.91
3m avg turnover (USDm)	16.7
Free float (%)	65.4
Issued shares (m)	2,202
Market capitalisation	SGD6.3B USD4.5B

Major shareholders:

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

Price Performance

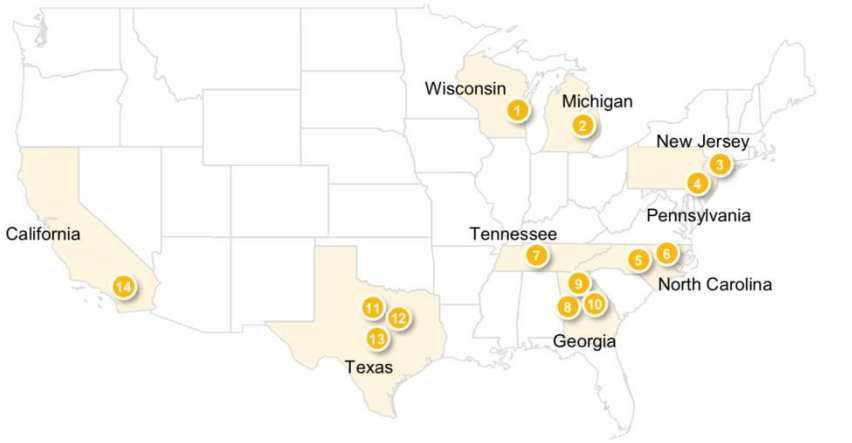


	-1M	-3M	-12M
Absolute (%)	11	35	31
Relative to index (%)	5	24	66

Source: FactSet

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Fig 1: Location of 14 US data centres in deal portfolio



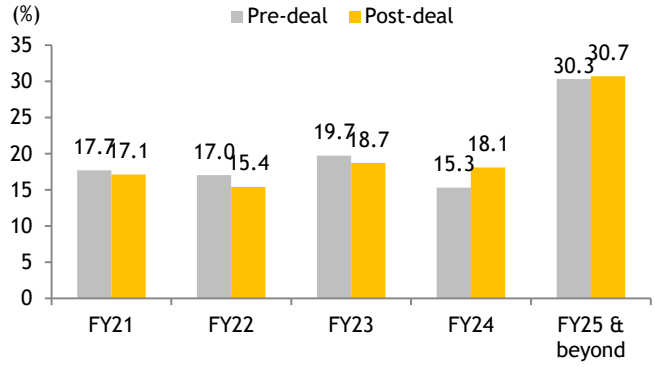
Source: Company data

Fig 2: Portfolio details

	Property	Land Area (sf)	NLA (sf)	Occupancy (%)	Valuation (USD m)	Tenants
1	N15W24250 Riverwood Drive, Pewaukee	598,799	142,952	100.0	45.3	AT&T
2	19675 W Ten Mile Road, Southfield	121,122	52,940	74.3	6.8	Level 3 Comms.
3	2 Christie Heights, Leonia	146,317	67,000	100.0	15.7	Ensono
4	2000 Kubach Road, Philadelphia	1,115,187	124,190	100.0	75.6	The Vanguard Group
5	1805 Center Park Drive, Charlotte	295,772	60,850	66.7	27.2	TierPoint
6	5150 McCrimmon Parkway, Morrisville	533,174	143,770	100.0	27.7	IT Solutions Provider, PPD Devt., CPI Security Systems
7	402 Franklin Road, Brentwood	1,888,833	347,515	100.0	118.0	AT&T
8	180 Peachtree, Atlanta	135,106	357,411	93.1	177.8	Equinix, Level 3 Comms., City of Atlanta, Verizon
9	1001 Windward Consourse, Alpharetta	892,446	184,553	100.0	58.2	General Electric
10	2775 Northwoods Parkway, Atlanta	140,341	32,740	100.0	8.0	IT Solutions Provider
11	1221 Coit Road, Plano	316,061	128,753	100.0	25.4	Internap Corporation
12	3300 Essex Drive, Richardson	66,265	20,000	100.0	19.8	CommonSpirit Health
13	5000 Bowen, Arlington	1,221,132	90,689	100.0	27.3	Atos
14	7337 Trade Street, San Diego	734,522	499,402	100.0	190.5	AT&T
All		**8,205,077**	**2,252,765**	**97.4**	**823.3**	

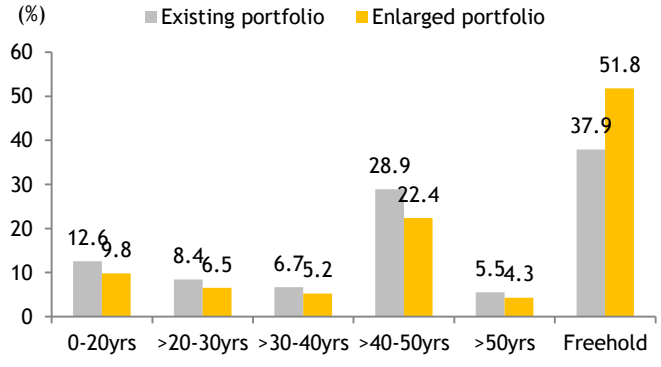
Source: Company data

Fig 3: Lease expiry profile – MINT's WALE remains at 4.2 years from the 4.6-year acquisition WALE



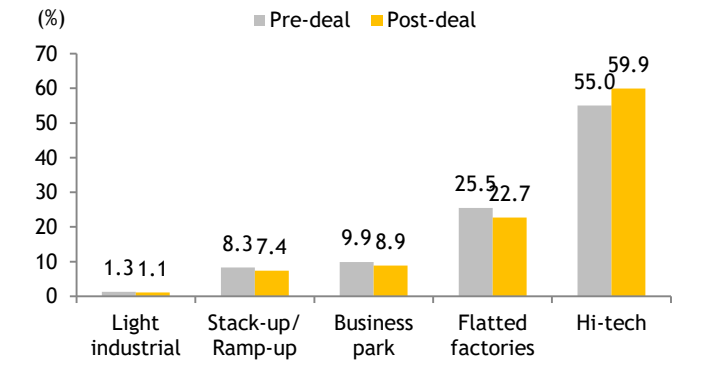
Source: Company data

Fig 4: Remaining years to expiry on underlying land leases - freehold assets jump to 51.8% of AUM



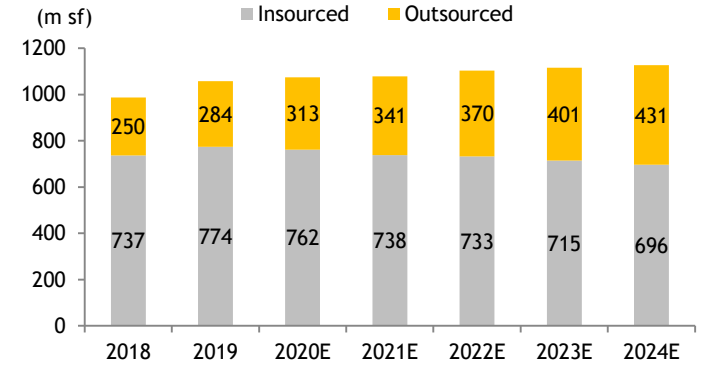
Source: Company data

Fig 5: Hi-tech AUM contribution rises from 55.0% to 59.9%, as US data centre contribution grows from 24.4% to 32.5%



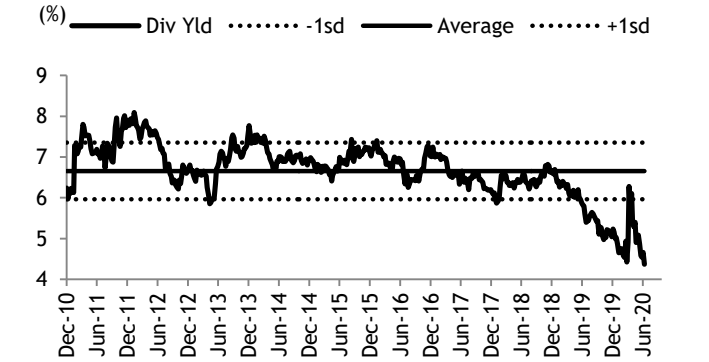
Source: Company data

Fig 6: Worldwide outsourced data centre space expected to grow at 9.5% CAGR from 2018-24E



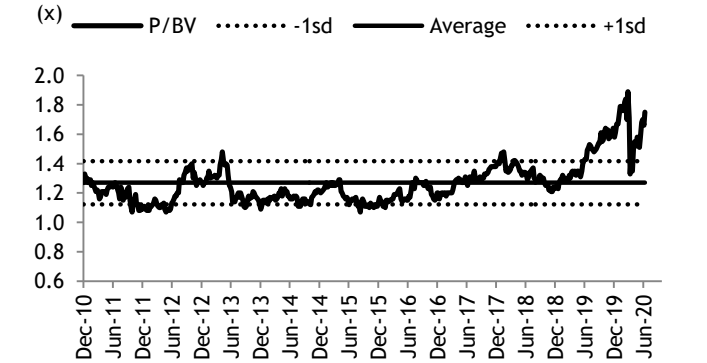
Source: Company data, 451 Research LLC

Fig 7: Div yields have tightened following a re-rating on the back of hi-tech segment growth and overseas diversification



Source: Bloomberg, FactSet, Maybank Kim Eng

Fig 8: P/BV has appreciated in line with its higher data centre AUM contribution

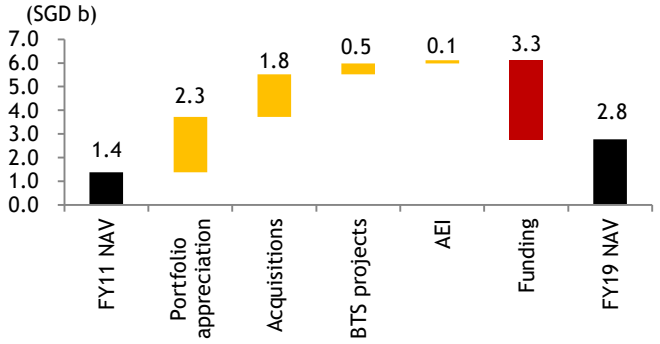


Source: Bloomberg, FactSet, Maybank Kim Eng

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 support DPU CAGR from FY20-22E.
- Strong balance sheet relative to peers with aggregate leverage at 37.6% as of end-Mar 2020, and an estimated SGD1.6-2.3b in debt headroom for deal opportunities.

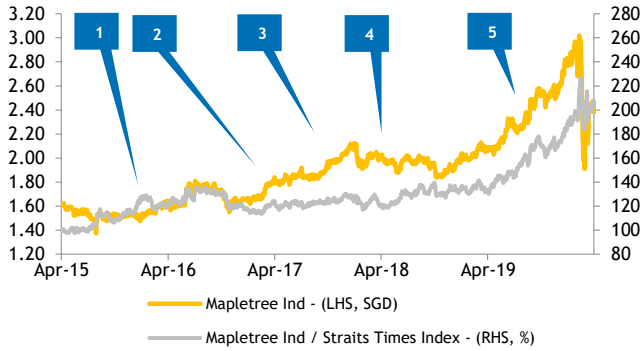
NAV growth (FY11-19)



Source: Company

Price Drivers

Historical share price trend



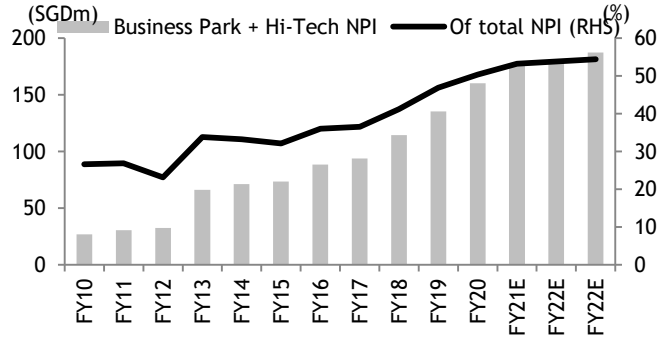
Source: Company, FactSet, Maybank Kim Eng

1. 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.
2. Mar-17: Secured new SGD76m BTS data centre project targeted for completion in 2H 2018.
3. 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.
4. 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.
5. Jul-19: Announced redevelopment of Kolam Ayer 2 cluster into high-tech precinct at SGD263.0m and 8.0% yield-on-cost.

Financial Metrics

- DPUs should be supported by contributions from on-going redevelopment projects and AEI, and contribution from US data centres acquisition from 3Q18.
- We forecast business parks and high-specs buildings to generate 54% of MINT's NPI in FY22E, up from 50% in FY19.

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	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Price/DPU(x)	17.2	19.4	21.4	20.9	20.2
P/BV (x)	1.4	1.5	1.8	1.8	1.8
P/NTA (x)	1.2	1.2	1.5	1.5	1.5
DPU yield (%)	5.8	5.2	4.7	4.8	5.0
FCF yield (%)	6.1	5.6	4.7	4.8	4.9
INCOME STATEMENT (SGD m)					
Revenue	376.1	405.9	423.2	429.2	437.9
Net property income	**287.8**	**318.1**	**331.3**	**336.8**	**344.1**
Management and trustee fees	(31.5)	(34.6)	(41.1)	(41.9)	(42.9)
Net financing costs	(40.1)	(45.0)	(46.1)	(51.6)	(59.1)
Associates & JV	26.1	76.5	77.9	79.7	81.6
Exceptionals	30.6	51.1	0.0	0.0	0.0
Other pretax income/expenses	0.2	2.6	0.0	0.0	0.0
Pretax profit	**271.1**	**367.2**	**320.4**	**321.4**	**322.1**
Income tax	0.0	(0.1)	0.0	0.0	0.0
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	**271.1**	**367.1**	**320.4**	**321.4**	**322.1**
Distributable inc to unitholders	231.8	265.3	292.6	300.1	310.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	40.0	53.4	56.1	52.2	48.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.2	0.2	0.0	0.0	0.0
Inverstment properties	4,336.3	4,473.1	4,505.3	4,575.6	4,668.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	194.1	642.2	645.8	678.7	712.2
Other assets	36.5	19.0	19.0	19.0	19.0
Total assets	**4,607.1**	**5,187.9**	**5,226.2**	**5,325.5**	**5,448.4**
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	104.7	94.8	94.8	94.8	94.8
LT interest bearing debt	1,396.7	1,459.6	1,529.6	1,649.6	1,779.6
Other liabilities	58.2	73.4	73.4	73.4	73.4
Total Liabilities	**1,559.5**	**1,627.8**	**1,697.8**	**1,817.8**	**1,947.8**
Shareholders Equity	3,047.5	3,560.1	3,528.4	3,507.7	3,500.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**3,047.5**	**3,560.1**	**3,528.4**	**3,507.7**	**3,500.7**
Total liabilities and equity	**4,607.1**	**5,187.9**	**5,226.2**	**5,325.5**	**5,448.4**
CASH FLOW (SGD m)					
Cash flow from operations	**244.9**	**286.9**	**293.4**	**298.1**	**304.6**
Capex	(0.2)	(0.0)	0.2	(0.0)	(0.0)
Acquisitions & investments	(384.1)	(447.2)	(100.0)	(150.0)	(150.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	14.6	17.8	77.9	79.7	81.6
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
CF from investing activities	**(369.7)**	**(429.4)**	**(22.0)**	**(70.3)**	**(68.4)**
Dividends paid	(204.0)	(219.3)	(292.6)	(300.1)	(310.6)
Interest expense	(39.7)	(43.7)	(46.1)	(51.6)	(59.1)
Change in debt	172.0	27.6	70.0	120.0	130.0
Equity raised / (purchased)	199.0	393.6	0.0	0.0	0.0
Other financial activities	0.0	(2.3)	0.0	0.0	0.0
CF from financing activities	**127.3**	**156.0**	**(268.7)**	**(231.7)**	**(239.8)**
Effect of exchange rate changes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash flow	**2.6**	**13.4**	**2.7**	**(3.9)**	**(3.7)**

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.5	7.9	4.3	1.4	2.0
Net property income growth	3.7	10.5	4.2	1.6	2.2
Core net profit growth	2.3	31.4	2.9	0.3	0.3
Distributable income growth	7.4	14.5	10.3	2.5	3.5
Profitability ratios (%)					
Net property income margin	76.5	78.4	78.3	78.5	78.6
Core net profit margin	64.0	77.9	76.8	76.0	74.7
Payout ratio	96.3	84.0	90.0	92.0	95.0
DuPont analysis					
Total return margin (%)	72.1	90.5	75.7	74.9	73.5
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	1.6
ROAE (%)	9.3	11.1	9.0	9.1	9.2
ROAA (%)	5.5	6.5	6.2	6.2	6.1
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	3.2	3.1	2.9	2.8
Net gearing (%) (excl. perps)	44.5	39.5	41.8	45.5	49.4
Net interest cover (x)	6.3	6.3	6.3	5.7	5.1
Debt/EBITDA (x)	5.5	5.2	5.3	5.6	5.9
Capex/revenue (%)	0.0	0.0	nm	0.0	0.0
Net debt/ (net cash)	1,356.7	1,406.1	1,473.5	1,597.4	1,731.0
Debt/Assets (x)	0.30	0.28	0.29	0.31	0.33

Source: Company; Maybank

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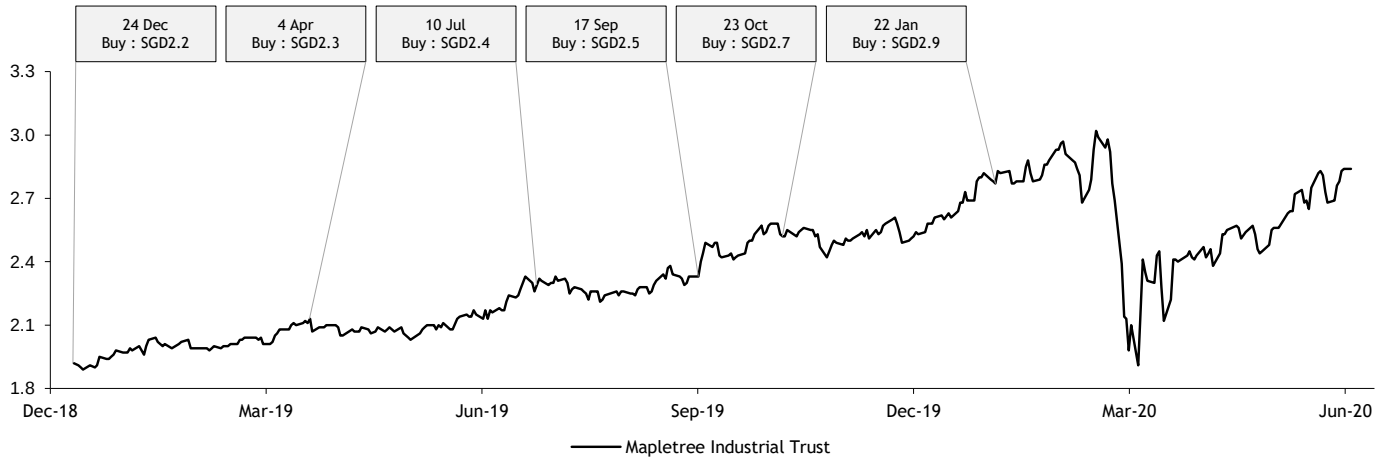
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