Mapletree Industrial Trust (MINT SP)

Tenant bankruptcy adds to headwinds, maintain HOLD

3rd largest tenant files for bankruptcy

MINT announced that its 3rd largest tenant by gross rentalincome (GRI) has initiated bankruptcy proceedings in the US Court. The data centre tenant is a global co-location provider and accounts for 3.2% of MINT's GRI. Rent for May is partly due. We view the announcement negatively, especially for a "growth" sector like data centre. That said, MINT has a diversified portfolio and tenant base and should be able to mitigate the impact. We lower forecasts and our DDM-based TP by 6% to SGD2.30. Maintain HOLD. We prefer MLT (MLT SP, BUY, TP SGD1.9) due to regional logistics exposure.

Data centre tenant initiates bankruptcy proceedings

The tenant occupies space in eight data centres located across North America, with seven of them as JV assets with sponsor. The tenant has paid rent in full for Apr'23, while rent for May is partly outstanding. MINT is pursuing the outstanding balance.

Financial impact, sector read-through

The tenant contributes 3.2% of MINT's monthly GRI. If the proposed Osaka acquisition goes through, the tenant would be the fourth-largest tenant, accounting for 3% of MINT's enlarged portfolio by GRI. The news and timing are not surprising to us given the negative news flow from peers and other tenants (AT&T and SunGard). However, it raises concerns on whether the data centre growth story is beginning to unravel. Further, the negative news comes just after the placement and we hope it is not a sector trend. Finally, it raises a few questions about MINT's leasing strength in the US and the level of oversight management has on tenant operations on an ongoing basis. All that said, we expect MINT to mitigate the impact given its diversified portfolio and tenant base.

Lower forecasts and target price, maintain HOLD

We factor in the pro forma 2.1% DPU accretion from the Osaka deal and potential impact from the tenant bankruptcy (c.-3.5%). All in, we lower DPU by 1 to 3% and cut our target price by 6%. Our concerns remain on local manufacturing slowdown and today's news further adds to potential downside risks for data centre assets as well.

FYE Mar (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	610	685	703	723	745
Net property income	472	518	545	569	586
Core net profit	424	398	372	378	380
Core EPU (cts)	16.3	14.7	13.2	13.3	13.4
Core EPU growth (%)	40.6	(9.6)	(10.3)	0.8	0.6
DPU (cts)	13.8	13.6	12.9	13.0	13.1
DPU growth (%)	8.1	(1.7)	(4.6)	0.2	1.2
P/NTA (x)	1.4	1.3	1.2	1.1	1.1
DPU yield (%)	5.1	5.7	5.8	5.8	5.9
ROAE (%)	9.7	5.7	7.1	7.1	7.1
ROAA (%)	5.7	4.7	4.3	4.2	4.2
Debt/Assets (x)	0.35	0.34	0.36	0.35	0.35
Consensus DPU	-	-	13.6	13.8	14.0
MIBG vs. Consensus (%)	-	-	(4.7)	(5.9)	(6.5)

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Share Price	SGD 2.22
12m Price Target	SGD 2.30 (+4%)
Previous Price Target	SGD 2.45

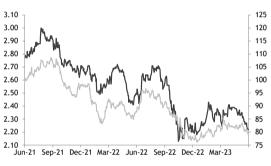
Company Description

Mapletree Industrial Trust invests in industrial properties globally. It owns assets in Singapore, Japan and the US.

Statistics

Statistics	
52w high/low (SGD)	2.71/2.13
3m avg turnover (USDm)	7.0
Free float (%)	65.4
Issued shares (m)	1,802
Market capitalisation	SGD4.0B
	USD3.0B
Major shareholders:	
Temasek Holdings	34.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(5)	(11)
Relative to index (%)	(3)	(3)	(10)
Source: FactSet			

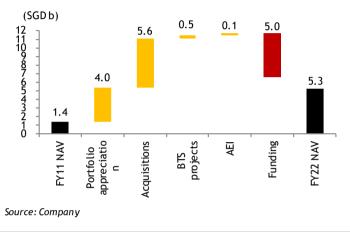




Value Proposition

- Third-largest industrial sector S-REIT with 141 properties across a SGD8.8b AUM, and backed by sponsor Mapletree Investments (Temasek Holdings).
- Resilient portfolio due to well-diversified tenant base, and lower conversion risk given greater proportion of multitenant assets.
- Completed redevelopment projects in Singapore together with US data centre portfolios from FY19 onwards, should support DPU growth and visibility from FY22-24E.
- Strong balance sheet with aggregate leverage at 38.4% and an estimated SGD1.7b in debt headroom (at 45% limit) to support acquisition growth opportunities.

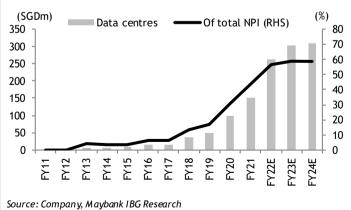
NAV growth (FY 11-22)



Financial Metrics

- DPUs should be supported by contributions from on-going redevelopment projects and AEI, and contribution from the various US data centre acquisitions from 3Q18.
- NPIs should gradually rise from a higher contribution of triple-net-leases.
- We forecast data centres in Singapore and the US to generate 59% of MINT's NPI in FY24E, up from 31% in FY20.

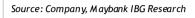
NPI growth profile



Price Drivers

Historical share price trend





- Apr-18: Executes novation (purchase) agreement for 7 Tai Seng Drive from sponsor and MLT to be upgraded into hitech building fully-leased to ICT tenant for 25 years.
- Jul-19: Announces redevelopment of Kolam Ayer 2 cluster into high-tech precinct at SGD263m and 8.0% yield-oncost.
- 3. Jun-20: Acquires remaining 60% interest in 14 US data centres from its sponsor for SGD299.5m at 6.8% NPI, raising hi-tech contribution to 59.9% of AUM.
- May-21: Acquires USD1.32b, 29 US data centre portfolio from Sila Realty Trust at 5.1% NPI yield and +3.3% DPU
- 5. Jun-22: Divests data centre in Southfield, Michigan

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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Risk Rating & Score ¹	18.0 (Low)
Score Momentum ²	+0.1
Last Updated	4 Oct 2022
Controversy Score ³ (Updated: 4 Oct 2022)	

Business Model & Industry Issues

- MINT draws on its available pool of funds to invest in industrial real estate, carry out asset enhancements, and redevelop
 properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for
 investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are regulated by the MAS under Singapore's code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with strong representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- It has steadily driven a transformation of its portfolio, and grown its hi-tech buildings segment through AEIs, built-to-suit projects and acquisitions. The addition of US data centre portfolios, with some properties jointly-held with its sponsor, have accelerated its access to the fast-growing sector, while lifting freehold properties to c.56% of its AUM

Material E issues

- Steadily reduced electricity and water intensities across its Singapore properties despite an increasing contribution from the hi-tech buildings segment.
- Has set near-term targets to reduce electricity and water intensity, and long term goals to cut Scope 2 GHG emissions intensity, and raise solar energy generating capacity.
- Achieved the BCA Green Mark Gold certifications or higher for 8 Singapore property clusters in FY22 (vs 7 in FY21), and will introduce sustainability clauses for new leases in its hitech buildings and business park buildings.
- Reports electricity and GHG emissions for 6 US data centres (out of 57), which are within operational control.
- Secured maiden sustainability-linked facility, or SGD300m in perpetual securities priced at 3.15% in May 2020

Material S issues

- Provided SGD12.7m of rental reliefs to tenants in FY21, and prioritised SMEs impacted by lower business volumes and supply chain disruptions with added support measures (eg. case-by-case restructuring of leases).
- The hiring and professional development of its employees, are supported by its sponsor's talent recruitment initiatives (Mapletree Associate, Executive, Internship) and learning and development programmes. Headcount rose c.8% in FY20 with the shift to in-house facilities management for all its clusters, and it stayed at 193 in FY21.
- Management started to conduct at least one employee town hall meeting in FY21 to improve staff engagement efforts, and targets to organise one CSR initiative per year.
- Gender diversity is high with females representing 52% of all employees in FY22 and 50% for the management team of 4; aims to achieve at least 25% of female board representation by 2025 and 30% by 2030, from 18%

Key G metrics and issues

- Managed externally by wholly-owned subsidiary of its sponsor Mapletree Investments, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is fairly high 6 of its 11 members are independent, and the CEO is the only executive and nonindependent member.
- Management fee structure, with the base fee at 0.5% of its deposited property, performance fee at 3.6% pa of NPI, as well as acquisition and disposal fee at 1.0% and 0.5% deal value, is comparable to peers.
- The cumulative remuneration of its key management team including the CEO, has represented <2.0% of the REIT's distributable income since it was first reported in FY17.
- Payout ratio for taxable income has been consistently maintained at 100%, above the minimum 90% threshold for tax transparency. Management withheld tax-exempt distributable income in 4Q20-1Q21 in view of COVID-19 uncertainties and looks to grant SGD20m in rent relief.
- Has scaled up AUM with accretive US data centre portfolio deals following an expansion of its investment mandate in Sep 2017. Its sponsor's remaining stakes in the properties mitigates the investment risks while adding to acquisition growth pipeline.
- Reclassified data centres as a standalone property segment from 1Q21 to reflect its contribution, which rose to 41.2% of AUM as of end-Mar 2021.
- Has generated significant value from five BTS projects, which achieved both growth in occupancies and rental uplifts post redevelopment, and is undertaking its largest at Kolam Ayer 2, set to complete in 2H 2022.

Trading liquidity has improved after well-timed equity fund raising activities. MINT was added to the benchmark FSSTI in Jun 2020

¹*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value respectively from FSG-driven financial impacts. ²*Score Momentum* - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³*Controversy Score* - reported periodically by Sustainalytics in the event of material FSG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Forecast changes

Fig 1: Forecast changes

	FY24E	FY25E	FY24E	FY25E	FY24	FY25
SGDm.	New	New	Old	Old	% chng	% chng
Revenue	702.7	723.2	684.1	701.0	2.7%	3.2%
NPI	545.3	569.2	530.2	550.3	2.8%	3.4%
Mgmnt and Trust fees	(65.6)	(66.9)	(62.5)	(63.7)	4.9%	5.0%
Bor rowing costs	(117.8)	(134.5)	(111.9)	(121.8)	5.2%	10.4%
Distributable income	364.8	368.1	358.9	365.1	1.6%	0.8%
DPU, cents	12.94	12.97	13.09	13.31	-1.1%	-2.5%

Source: Maybank IBG Research

Valuation

We value MINT based on a 3-stage dividend discount model using cost of equity of 7.2% and medium-term growth of 2%. This is lower than our earlier input of 2.25%, mainly due to the growth headwinds emerging in the data centre segment. The lower DPUs, coupled with reduction in mid-term growth rates, result in our target price reduction from SGD2.45 to SGD2.30.

While we recognise MINT's relatively attractive valuation among the large-cap industrial REITs, the sharp and prolonged slowdown in the local manufacturing sector is likely to weigh on demand for industrial space, especially the high-tech segment, in our view. Further, today's news about data centre tenant bankruptcy further adds to the headwinds.

Risks

Higher interest rates, tenant non-renewals and bankruptcies in US data centres, and lower portfolio occupancy due to a slowdown in the manufacturing sector.

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FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	19.5	17.5	17.2	17.1	16.9
P/BV (x)	1.4	1.2	1.2	1.1	1.1
P/NTA (x)	1.4	1.3	1.2	1.1	1.1
DPU yield (%)	5.1	5.7	5.8	5.8	5.9
FCF yield (%)	7.1	7.0	nm	7.2	7.3
INCOME STATEMENT (SGD m)					
Revenue	610.1	684.9	702.7	723.2	744.9
Net property income	472.0	518.0	545.3	569.2	586.2
Management and trustee fees	(54.5)	(60.1)	(65.6)	(66.9)	(67.8)
Net financing costs	(70.9)	(97.6)	(117.8)	(134.5)	(136.3)
Associates & JV	116.3	67.9	46.9	48.1	48.1
Exceptionals	7.2 0.1	(110.6)	0.0	0.0 0.7	0.0
Other pretax income/expense Pretax profit	461.3	0.7 311.0	0.7 402.2	0.7 409.2	0.7 423.7
Income tax					(49.0)
Minorities	(30.2) 0.0	(23.9) 0.0	(37.7) 0.0	(39.4) 0.0	(49.0) 0.0
Discontinued oper ations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitho	431.1	287.0	364.5	369.9	374.6
Core net profit	424.0	397.6	372.0	377.6	374.0
Distributable inc to unitholder:	350.9	356.6	364.8	368.1	373.0
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BALANCE SHEET (SGD m)					
Cash & Short Term Investments	149.6	146.6	143.3	143.3	143.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.2	0.1	0.0	0.0	0.0
Inverstment properties	7,660.6	7,658.7	8,197.0	8,279.0	8,320.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	564.5	598.9	435.0	435.0	435.0
Other assets	105.1	142.5	142.5	142.5	142.5
Total assets	8,480.0	8,546.8	8,917.8	8,999.8	9,041.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	142.6	158.8	158.8	158.8	158.8
LT interest bearing debt	2,939.7	2,881.0	3,181.0	3,181.0	3,181.0
Other liabilities	118.8	131.0	131.0	131.0	131.0
Total Liabilities	3,201.1	3,170.9	3,470.9	3,470.9	3,470.9
Shar eholder s Equity	5,278.9	5,375.9	5,447.0	5,528.9	5,570.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	5,278.9	5,375.9	5,447.0	5,528.9	5,570.3
Total liabilities and equity	8,480.0	8,546.8	8,917.8	8,999.8	9,041.2
CASH FLOW (SGD m)					
Cash flow from operations	497.1	448.1	432.7	453.8	460.5
Capex	(0.0)	0.0	(505.9)	0.0	0.0
Acquisitions & investments	(1,780.4)	(128.9)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associat	25.9	28.3	46.9	48.1	48.1
Other investing cash flow	0.0	0.0	0.7	0.7	0.7
CF from investing activities	(1,754.5)	(100.6)	(458.3)	48.8	48.8
Dividends paid	(306.1)	(225.1)	(364.8)	(368.1)	(373.0)
Interest expense	(66.6)	(85.8)	(117.8)	(134.5)	(136.3)
Change in debt	618.3	(30.1)	300.0	0.0	0.0
Equity raised / (purchased)	810.3	0.0	204.8	0.0	0.0
Other financial activities	290.6	(9.5)	0.0	0.0	0.0
CF from financing activities	1,346.6	(350.5)	22.3	(502.6)	(509.3)
Effect of exchange rate chan	0.0	(0.0)	0.0	0.0	0.0
Net cash flow	89.2	(3.0)	(3.3)	0.0	0.0

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FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios	***************************************	*******			
Growth ratios (%)					
Revenue growth	36.4	12.3	2.6	2.9	3.0
Net property income growth	34.5	9.7	5.3	4.4	3.0
Core net profit growth	58.3	(6.2)	(6.4)	1.5	0.8
Distributable income growth	18.8	1.6	2.3	0.9	1.3
Profitability ratios (%)					
Net property income margin	77.4	75.6	77.6	78.7	78.7
Core net profit margin	69.5	58.1	52.9	52.2	51.1
Payout ratio	84.7	92.2	98.1	97.5	98.0
DuPont analysis					
Total return margin (%)	70.7	41.9	51.9	51.1	50.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	9.7	5.7	7.1	7.1	7.1
ROAA (%)	5.7	4.7	4.3	4.2	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.6	2.6	2.6
Net gearing (%) (excl. perps)	52.9	50.9	55.8	54.9	54.5
Net interest cover (x)	5.8	4.6	4.0	3.7	3.8
Debt/EBITDA (x)	7.2	6.4	6.7	6.4	6.2
Capex / r evenue (%)	0.0	0.0	72.0	0.0	0.0
Net debt/ (net cash)	2,790.1	2,734.4	3,037.7	3,037.7	3,037.7
Debt/Assets (x)	0.35	0.34	0.36	0.35	0.35

Source: Company; Maybank IBG Research

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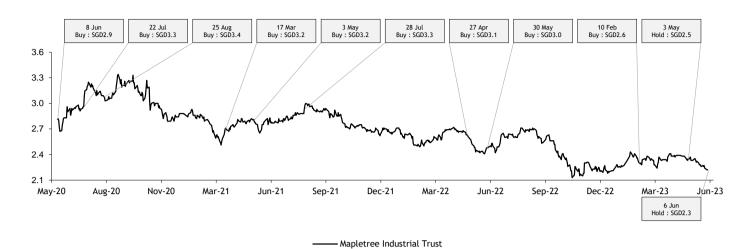
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