

Mapletree Logistics Trust (MLT SP)

Taking a breather, downgrade to HOLD

HOLD

[Prior:BUY]

Share Price SGD 1.63
 12m Price Target SGD 1.70 (+9%)
 Previous Price Target SGD 1.60

China headwinds, easing occupancy

MLT reported 3QFY24 DPU of 2.253 cents, -0.7% QoQ and +1.2% YoY. 9M DPU of 6.792 cents +0.7% YoY, is at 78% of our full-year forecast. Organic growth and contributions from newly acquired assets were offset by higher borrowing cost, weaker FX and lower income from its China portfolio. Reversions stayed positive despite broad-based occupancy slippage. Debt metrics were relatively unchanged. While logistics is a good theme, sluggish recovery in China and competition from new supply make us downgrade MLT to HOLD. We lower estimates but raise TP to SGD1.7, factoring in a lower discount rate.

Steady set of results

3Q revenue and NPI of SGD184m and SGD159.5m rose 2.1% and 1.5% YoY respectively. Organic growth and contributions from assets acquired earlier in the financial year was partly offset by weakness in China and FX depreciation. On a constant-currency basis, revenue and NPI was up 4.8% and 4.1% respectively. Distribution of gains from divestments more than offset the impact of higher borrowing cost, resulting in 1.2% growth in DPU. On a QoQ basis, revenue and NPI weakened due to lower contributions from China and a weaker JPY. DPU fell 0.7% QoQ. Gearing (38.8%) and borrowing cost (2.5%) were relatively unchanged from 2Q. Debt cost guide for FY25 is 2.8-3%.

Operating metrics softer

Portfolio occupancy slipped 1ppt QoQ to 95.9%. Barring Vietnam, Australia and India, occupancy slipped across all other geographies. Decline in Singapore and HK was attributed to expiries of leases in single-user assets with older specifications. Portfolio rental reversion was 3.8% and excluding China, it was +6.2%. The focus remains on divesting older assets and acquiring in growth markets of Vietnam and Malaysia. We expect China to remain weak for the next 12-18 months with high-teens negative reversion in tier-2 cities and possibly lower occupancy even in tier-1 cities.

Downgrade to HOLD

We lower our DPU estimates by 1-2% after factoring in income gap from divested assets, lower portfolio occupancy and contribution from China. However, TP rises to SGD1.7 due to a lower discount rate. While logistics continues to be an attractive sector, sluggish recovery in China, competition from oncoming new supply and rising vacancy make us pause.

FYE Mar (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	679	731	762	785	797
Net property income	592	635	667	687	697
Core net profit	391	433	429	431	435
Core EPU (cts)	4.4	6.7	6.6	6.6	6.6
Core EPU growth (%)	(38.0)	52.6	(1.2)	(1.4)	(0.1)
DPU (cts)	8.8	9.0	8.7	8.6	8.5
DPU growth (%)	5.6	2.0	(3.5)	(1.4)	(0.3)
P/NTA (x)	1.3	1.2	1.1	1.1	1.1
DPU yield (%)	4.8	5.3	5.3	5.3	5.2
ROAE (%)	3.1	4.6	4.6	4.6	4.6
ROAA (%)	3.1	3.2	3.1	3.0	3.0
Debt/Assets (x)	0.36	0.36	0.38	0.38	0.37
Consensus DPU	-	-	8.8	8.7	8.8
MIBG vs. Consensus (%)	-	-	(1.3)	(1.6)	(2.9)

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Company Description

Mapletree Logistics Trust invests in income-producing logistics assets and properties.

Statistics

52w high/low (SGD)	1.80/1.45
3m avg turnover (USDm)	14.2
Free float (%)	67.0
Issued shares (m)	4,960
Market capitalisation	SGD8.1B USD6.0B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	33.0%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	9	(1)
Relative to index (%)	(3)	8	4

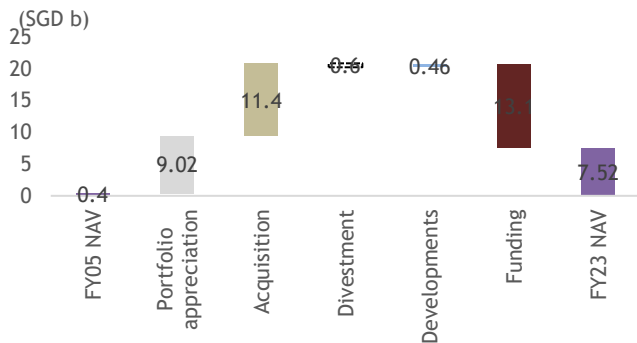
Source: FactSet

ESG@MAYBANK IBG
 Tear Sheet Insert

Value Proposition

- Second-largest industrial sector S-REIT, backed by sponsor Mapletree Investments (Temasek Holdings).
- Portfolio has grown from 15 Singapore properties valued at SGD422m at IPO in 2005 to 185 logistics assets at end-Jun 2022 valued at SGD13.0b.
- Diversified across nine Asian geographies: Singapore, Hong Kong, China, Australia, Malaysia, South Korea, Japan, Vietnam, and India.
- Has right-of-first refusal to 4.9m sqm development pipeline (about 0.6x current portfolio) from its sponsor.
- Acquisitive - AUM has risen faster than DPUs with accretion from recent deals at +0.4-2.6%.

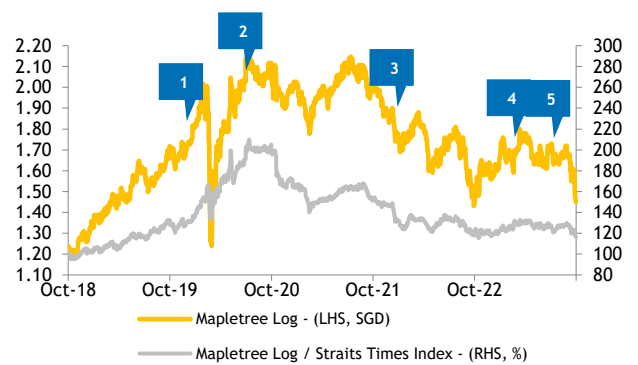
NAV growth (FY05-23)



Source: Company

Price Drivers

Historical share price trend



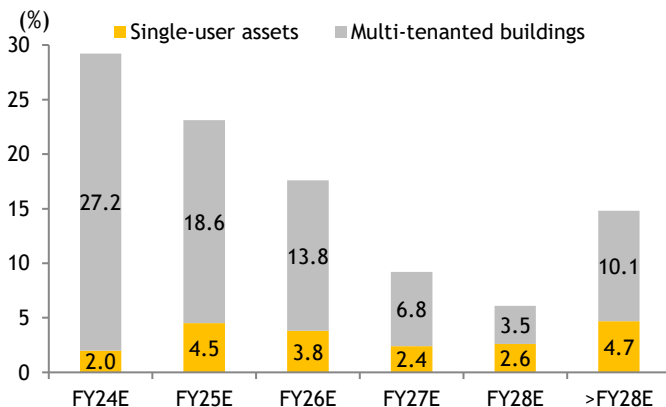
Source: Company, Maybank IBG Research

1. Jan-20: Announced Kobe Logistics Centre acquisition from its sponsor for JPY22.2b (SGD272.5m) at 4.0% NPI yield.
2. Oct-20: Acquired nine assets in China, Malaysia and Vietnam, and remaining 50% interest in 15 China properties for SGD1.05b at 5.2% NPI yield.
3. Nov 21: Acquired SGD1.4b of warehouses in China, Vietnam and Japan
4. Mar-23: Non-redemption of SGD180m perp
5. Mar 23: Acquisition of SGD0.9b of warehouses in Japan, Sydney and Korea, potential acquisition of 2 properties in PRC and potential warehouse divestment in HK

Financial Metrics

- Acquisitions completed in China, Malaysia, Vietnam, South Korea and Japan during FY22-23 to support DPUs.
- NPI margins to stabilise over FY25-26E, with further easing of inflation pressure.
- Well-staggered lease expiry profile with WALE (by NLA) at 3.1 years.

Fig 1: Lease expiry profile (Mar-23, % NLA)



Source: Company, Maybank IBG Research

Swing Factors

Upside

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

Downside

- Prolonged slowdown in economic activity could reduce demand for logistics space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Significant volatility in foreign currency exchange rates could impede hedging efforts and impact DPU estimates.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with a higher cost of capital lowering valuations.

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Risk Rating & Score ¹	15.6 (Low)
Score Momentum ²	-4.4
Last Updated	4 Oct 2022
Controversy Score ³ (Updated: 4 Oct 2022)	0 - No Reported Incident

Business Model & Industry Issues

- MLT draws on its available pool of funds to invest in industrial (logistics) real estate, carry out asset enhancements and redevelop properties to optimise value for its unit holders. 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.
- Acquisitions have gained momentum since FY18, as portfolio deals boosted its AUM to SGD13.0b. Freehold properties in Australia, Japan, Malaysia and South Korea are c.20% of its assets by NLA.
- A phased approach has been adopted to report energy consumption and improve YoY data representation, which covered six of its nine operating markets in FY21. It participated for the first time in the GRESB Real Estate Assessment in FY22.

Material E issues

- Expanded the scope for energy intensity reduction in FY23 by 1.0-1.5% from a FY22 baseline, to all assets with operational control, up from six markets in FY22.
- Aims to raise solar energy generating capacity by 15-20% from FY22 baseline, and to achieve longer term target to double capacity by 2030.
- Has secured SGD800m of green funding to date, comprising SGD450m in sustainability-linked loans and SGD350m in green loans, which represent c.16% of total borrowings.
- New targets in FY23 include plans to introduce green leases in Singapore, and to increase certified green space (by GFA) by 25% from a FY22 baseline.
- Has set long-term target to achieve 20% energy reduction in Singapore and Hong Kong SAR by 2030 from a FY19 baseline.

Material S issues

- Has aligned initiatives to sponsor's CSR framework, which also aims to encourage its employees to organise or participate in self-initiated community service projects in their respective markets.
- Gender diversity is high with female representation at 59% for all employees, and 50% for its 20-strong management team; targets to maintain female board representation at a third.
- The hiring and professional development of its employees is supported by its sponsor's various talent recruitment initiatives (Mapletree Associate, Executive, Internship) and its learning and development programmes.
- Training per employee rose to 35.8 hours on average in FY22 (vs 26.4 hours in FY21), and included at least one hour in the areas of ESG and digital transformation.

Key G metrics and issues

- Managed externally by a 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 comprises 12 directors, 7 of whom are independent, with 4 females represented. The CEO is the only executive and non-independent member.
- Management fee structure, with a 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, comparable to peers.
- The cumulative remuneration of its key management team including the CEO was <3% of distributable income since it was first disclosed in FY17. Senior management and the board elected to take a 5-10% cut in base salary and retainer fees due to COVID-19.
- Payout ratio has been consistently kept at 100%, above the minimum 90% threshold for tax transparency.
- Has accelerated on acquisitions since FY18, which were DPU-accretive (at 1.4-2.6%) and in line with a rigorous process - a sponsored deal requires a review by the audit committee and unit holders' approval at an EGM if its value exceeds 5% of NAV.
- Divestments in Singapore, China, Japan, and Malaysia since FY15 have delivered >SGG0.1b in gains and capital distributions.
- Its AUM has jumped 2.5x from FY17-22 largely on the back of accretive acquisitions, but leverage has averaged c.38%, and its balance sheet has stayed sound due to well-timed equity fund raising.

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 ESG-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 ESG-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).

1. Results highlights

Fig 2: 3QFY24 results highlights

SGDm	Dec-22	Sep-23	Dec-23		
YE 31 Mar	3Q23	2Q24	3Q24	QoQ	YoY
Gross revenue	180.2	186.7	184.0	-1.4	2.1
Property expenses	(23.0)	(24.7)	(24.5)	-0.8	6.5
Net property income	157.2	162.0	159.5	-1.5	1.5
Borrowing costs	(34.8)	(36.8)	(36.7)	-0.3	5.5
Distributable income	107.1	112.5	112.2	-0.3	4.8
DPU (SGD¢)	2.227	2.268	2.253	-0.7	1.2
NAV per unit (SGD)	1.41	1.42	1.40	-1.4	-0.7
Aggregate leverage (%)	37.4	38.9	38.8	(10.0)	140.0
All-in financing cost (%)	2.6	2.5	2.5	0.0	(10.0)
Occupancy (%)	96.9	96.9	95.9	(100.0)	(100.0)
Rental reversion (%)	2.9	0.2	3.8	360.0	90.0
NPI margin (%)	87.2	86.8	86.7	(0.1)	(0.6)

Source: Maybank IBG Research, Company Data

2. Estimate changes

Fig 3: Estimate changes

	FY24E	FY25E	FY24E	FY25E	FY24	FY25
SGDm	New	New	Old	Old	% chng	% chng
Revenue	762.4	784.9	788.7	813.0	-3.3%	-3.5%
NPI	667.1	686.7	690.1	711.1	-3.3%	-3.4%
Mgmt fees	(94.1)	(94.9)	(95.6)	(96.7)	-1.6%	-1.9%
Borrowing costs	(157.5)	(174.4)	(158.3)	(166.0)	-0.5%	5.1%
Distrib. income	428.7	430.8	426.0	430.5	0.6%	0.1%
DPU, cents	8.68	8.57	8.79	8.78	-1.2%	-2.4%

Source: Maybank IBG Research

3. Valuation

We value MLT using a 3-stage dividend discount model and applying a cost of equity (COE) of 7.4%. This is lower than our prior COE of 7.7% because of a lower risk-free rate. We lower our DPU due to a lower top line by factoring in less contributions from China, and lower portfolio occupancy and rent reversions. This is partially offset by higher distribution of divestment gains. All up, we raise our TP to SGD1.70 but downgrade the stock to HOLD with an implied total return of less than 10%. While logistics continues to be an attractive sector, sluggish recovery in China, oncoming new supply and rising vacancy make us pause.

4. Risks to our call

More-than-expected fiscal and monetary stimulus in China, lower FX volatility, improved pace of capital recycling and lower interest rates.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	21.0	19.0	18.8	19.0	19.1
P/BV (x)	1.2	1.1	1.0	1.1	1.1
P/NTA (x)	1.3	1.2	1.1	1.1	1.1
DPU yield (%)	4.8	5.3	5.3	5.3	5.2
FCF yield (%)	6.0	7.4	19.7	7.4	7.4

INCOME STATEMENT (SGD m)

Revenue	678.6	730.6	762.4	784.9	796.6
Net property income	592.1	634.8	667.1	686.7	697.0
Management and trustee fees	(79.9)	(90.9)	(94.1)	(94.9)	(95.6)
Net financing costs	(103.4)	(134.1)	(157.5)	(174.4)	(179.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	588.2	225.8	0.0	0.0	1.0
Other pretax income/expenses	1.6	2.4	2.4	2.4	2.4
Pretax profit	993.7	638.0	417.9	419.9	425.6
Income tax	(210.3)	(88.4)	(89.6)	(90.1)	(91.1)
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	195.3	323.8	328.3	329.8	333.5
Core net profit	390.7	432.9	428.7	430.8	435.0
Distributable inc to unitholders	390.7	432.9	428.7	430.8	435.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	338.6	302.5	162.7	136.2	210.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	13,100.3	12,754.5	13,688.2	13,706.7	13,775.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	251.0	366.2	366.2	366.2	366.2
Total assets	13,689.8	13,423.2	14,217.2	14,209.1	14,352.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	338.2	309.8	309.8	309.8	309.8
LT interest bearing debt	4,958.2	4,877.4	5,377.4	5,377.4	5,377.4
Other liabilities	723.6	713.6	713.6	713.6	713.6
Total Liabilities	6,020.1	5,900.8	6,400.8	6,400.8	6,400.8
Shareholders Equity	7,650.8	7,508.4	7,802.4	7,794.3	7,937.3
Minority Interest	18.9	14.0	14.0	14.0	14.0
Total shareholder equity	7,669.8	7,522.4	7,816.4	7,808.3	7,951.3
Total liabilities and equity	13,689.8	13,423.2	14,217.2	14,209.1	14,352.0

CASH FLOW (SGD m)

Cash flow from operations	493.9	609.7	585.9	604.6	614.3
Capex	(0.0)	(0.0)	1,000.0	(0.0)	(0.0)
Acquisitions & investments	(1,619.2)	(236.4)	130.0	(50.0)	50.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(3.0)	5.7	2.4	2.4	2.4
CF from investing activities	(1,622.2)	(230.7)	1,132.4	(47.6)	52.4
Dividends paid	(375.3)	(431.7)	(385.8)	(387.7)	(391.5)
Interest expense	(92.6)	(133.4)	(157.5)	(174.4)	(179.3)
Change in debt	837.9	204.9	500.0	0.0	0.0
Equity raised / (purchased)	683.3	0.0	208.6	0.0	0.0
Other financial activities	126.6	(26.2)	(21.5)	(21.5)	(21.5)
CF from financing activities	1,180.0	(386.3)	143.7	(583.7)	(592.3)
Effect of exchange rate changes	1.8	(25.6)	0.0	0.0	0.0
Net cash flow	53.5	(32.9)	1,862.0	(26.6)	74.4

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.9	7.7	4.3	2.9	1.5
Net property income growth	18.6	7.2	5.1	2.9	1.5
Core net profit growth	17.3	10.8	(1.0)	0.5	1.0
Distributable income growth	17.3	10.8	(1.0)	0.5	1.0
Profitability ratios (%)					
Net property income margin	87.3	86.9	87.5	87.5	87.5
Core net profit margin	57.6	59.3	56.2	54.9	54.6
Payout ratio	200.1	133.8	130.6	130.6	130.4
DuPont analysis					
Total return margin (%)	28.8	44.3	43.1	42.0	41.9
Gross revenue/Assets (x)	0.0	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	3.1	4.6	4.6	4.6	4.6
ROAA (%)	3.1	3.2	3.1	3.0	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.2	2.2	2.2
Net gearing (%) (excl. perps)	60.2	60.8	66.7	67.1	65.0
Net interest cover (x)	4.9	4.1	3.6	3.4	3.4
Debt/EBITDA (x)	9.8	9.0	9.4	9.1	8.9
Capex/revenue (%)	0.0	0.0	nm	0.0	0.0
Net debt/ (net cash)	4,619.6	4,574.9	5,214.7	5,241.2	5,166.8
Debt/Assets (x)	0.36	0.36	0.38	0.38	0.37

Source: Company; Maybank IBG Research

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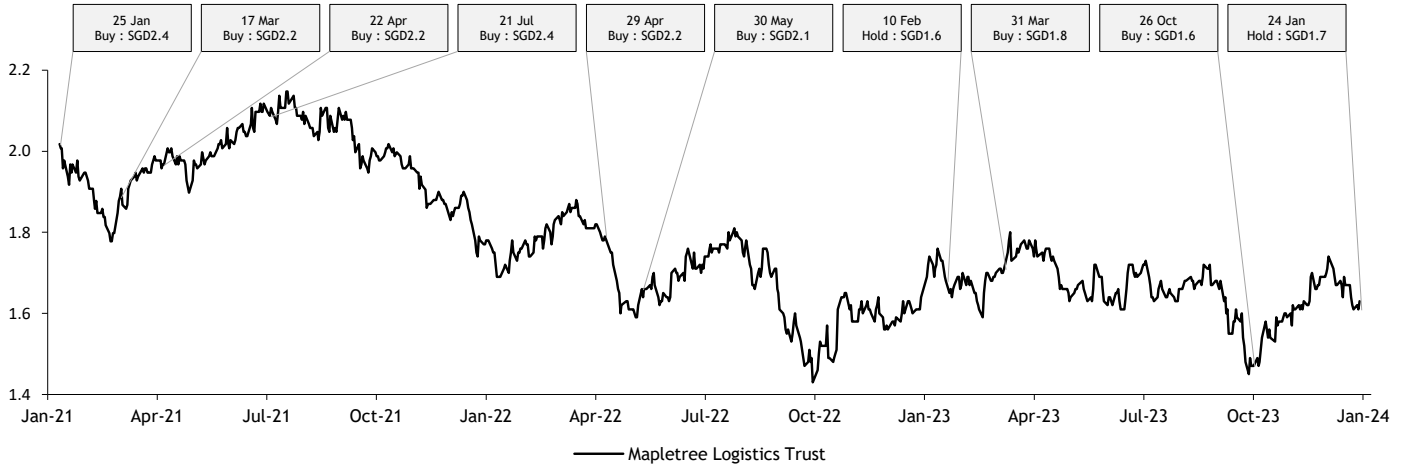
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