Asia Credit Research

Earnings Review: Mapletree Industrial Trust ("MINT")

Issuer Profile: Neutral (3)

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") owns a portfolio of 85 flatted factories, hi-tech business parks, stack-up/ramp-up and light industrial buildings in Singapore. As at 31 March 2018, MINT's total assets were SGD4.2bn. From October 2017 onwards, MINT (via a joint venture with its Sponsor) also owns 14 data centres in the USA. MINT is Sponsored by Mapletree Investments Pte Ltd ("Mapletree").

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Recommendation

- With the proposed acquisition of 7 Tai Seng from Mapletree Logistics Trust and on-going redevelopment works, MINT's aggregate leverage is rising to a level that is more in line with its Industrial REIT peers after being below 30% for much of 2016 and 2017. Nonetheless, on the back of MINT's healthy interest coverage ratio, we maintain MINT's issuer profile at Neutral (3).
- MINT's longer dated bonds tend to be less liquid. Among the shorter dated paper, we prefer Frasers Centrepoint Trust's FCTSP 2.9% '19 over the MINTSP 3.75% '19s. For a similar tenure, the FCTSP 2.9% '19s allows a spread pick-up of 60bps.
- We also hold Fraser Centrepoint Trust's issuer profile at Neutral (3).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
MINTSP 3.75% '19	08/03/2019	33.1%	1.96%	18
FCTSP 2.9% '19	10/04/2019	29.2%	2.59%	79

Indicative prices as at 30 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Key Considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by contribution from HP Singapore and share of results from USA data centres:** Gross revenue increased 2.9% y/y to SGD90.4mn, mainly due to revenue contribution from the build-to-suit project for HP Singapore (completed in June 2017), partly offset by lower portfolio occupancies across all sub-segments except light industrial. With expenses in-check, net property income simultaneously increased 2.9% y/y to SGD67.9mn. In 4QFY2018, MINT recorded SGD65.5mn in net fair value gain on investment properties and investment properties under development (4QFY2017: SGD70.2mn). On a q/q basis, gross revenue had decreased 1.2% (3QFY2017: SGD91.5mn). Per MINT's disclosure, this was due to reduction in other revenue though partly offset by contribution from HP Building. We think MINT's existing portfolio on a same-store basis saw a decline q/q as rents were reduced to prioritize tenant retention. Via a joint venture with Sponsor, 14 data centres in the USA were acquired in December 2017. Share of joint venture including revaluation gains from investment properties was SGD21.0mn in 4QFY2018, which helped drive total return for the period after income tax higher at SGD138.4mn (up 13.8% y/y).

- **Interest coverage lower despite US JV:** EBITDA (based on our calculation which does not include other income and other expenses) was 2.8% higher y/y to SGD60.5mn. Interest expense though was significantly higher at SGD9.3mn, resulting in a lower EBITDA/Interest coverage of 6.5x (4QFY2017: 8.1x). The higher interest expense was driven by MINT taking up new debt to fund its investment in the US joint venture (completed in December 2017). While MINT currently holds a 40%-stake in the joint venture, it has a right of first refusal to acquire Sponsor's 60%-stake. Adjusting EBITDA to include SGD3.2mn (being the share of USA joint venture, excluding net fair value gain on the investment properties), we find Adjusted EBITDA/Interest at 6.9x.

- **Weighted average lease expiry ("WALE") has improved:** By rental income, 18.0% of MINT's portfolio is due to expire by end-March 2019 with more than half of these being flatted factories. Encouragingly this is significantly lower than the situation as at 31 March 2017, when 28.2% of the leases by rental income was expiring by end-March 2018. As at 31 March 2018, MINT's Singapore portfolio had a WALE of 3.6 years, improving from 3.1 years a year before. MINT's USA portfolio has a WALE of 6 years. MINT's rent is now relatively concentrated, with

HP Singapore contributing 9.9% of rental income (up from 5.3%). Mitigating this somewhat, the other nine largest tenants collectively only make up 16.2% of rents, and on an individual basis, none contributes more than 3.3%.

- **Development projects ongoing:** MINT has been active in ramping up greenfield and redevelopment projects. MINT’s less modern portfolio means higher urgency is required to re-populate the portfolio with new/revamped assets to uphold operational metrics acceptable to stakeholders. The asset enhancement initiatives at 30A Kallang Place (cost SGD77.0mn) had completed on 13 February 2018 and leasing commitments have been secured for 40.2% of net lettable area. MINT is progressing on the built-to-suit project at 12 Sunview Drive in Boon Lay (cost SGD76.0mn). The building is targeted to complete in the second half of 2018 and 100% of the space has been committed by a data centre operator.

- **Buying 7 Tai Seng acquisition from Mapletree Logistics Trust (“MLT”):** On 27 April 2018, MINT announced that it has taken over the option to purchase 7 Tai Seng from its Sponsor. The option to purchase allows MINT to buy the property from its sister REIT, MLT. Both MLT and MINT share the same Sponsor. 7 Tai Seng was originally proposed to be sold to Sponsor (rather than MINT) in August 2017 for SGD68.0mn (representing 114% of valuation as at 31 March 2017). The deal was subject to JTC approval and remains so. MINT has entered into a lease agreement with a tenant in the information and communications (“ICT”) sector for an initial 25-year term for 100% of the space, subject to extension of land lease for an additional 30 years, approvals from JTC and completion of upgrading works in the second half of 2019.

- **Aggregate leverage no longer below Industrial REIT peers:** While we think the cash balance of SGD37.4mn as at 31 March 2018 may be sufficient for the remaining redevelopment of 12 Sunview Drive, 7 Tai Seng would need to be funded externally in our view. Apart from the SGD68.0mn in purchase price, cost for upgrading works will bring the total cost to SGD95.0mn. Assuming this is 100% debt funded, MINT’s aggregate leverage will rise to 34.6%. As at 31 March 2018, aggregate leverage (taking into account MINT’s proportionate debt and asset at the JV level) was 33.1%. For much of 2016 and 2017, MINT’s aggregate leverage was below 30%.

- **Low refinancing risk at MINT:** Short term debt was SGD184.9mn as at 31 March 2018, SGD125mn of this relates to the MINTSP 3.75% ‘19s which will come due on 8 March 2019 while the remainder consist of bank borrowings. The debt coming due represents only 15% of consolidated debt. All investment properties totalling SGD3.9bn remains unencumbered, providing financial flexibility at MINT to raise secured debt if need be. We see low refinancing risk at MINT.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

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Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

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Analyst Declaration
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