OCBC Bank

Asia Credit Research

Earnings Review: Mapletree Logistics Trust ("MLT")

Recommendation

- MLT has reported a stronger set of financial results, which was in part driven by acquisitions and property developments. 24.4% of leases expire by end-March 2019 and a significant proportion of these relates to Singapore assets. We expect that MLT would continue to be aggressive in utilising its balance sheet to acquire assets in faster-growing markets.
- We prefer Ascott Residence Trust's ARTSP 4.68%-PERP over both the MLTSP's perpetuals, following the 60 bps widening of ARTSP 4.68%-PERPs since February 2018. A switch from the MLTSP 4.18%-PERP into the ARTSP 4.68%-PERP would allow a spread pick up of 50 bps for a 1.4 year shorter call date.
- We hold both MLT and ARTSP's issuer profile at Neutral(4).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
MLTSP 3.65%-PERP	28/03/2023	37.7%	3.95%	159
MLTSP 4.18%-PERP	25/11/2021	37.7%	3.70%	147
ARTSP 4.68%-PERP	30/06/2020	36.1%	4.00%	196

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

Issuer Profile: Neutral (4)

Ticker: **MLTSP**

Background

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore. Total assets were SGD6.7bn as at 31 March 2018. By value, MLT's assets are located in Hong Kong (34.3%), Singapore (26.8%), Japan (14.6%), Australia (8.5%) and Others (15.8%). MLT owns 124 properties as at 31 March 2018. MLT is sponsored by Mapletree Investments Pte Ltd ("Mapletree") who holds a 35.7%-stake in MLT.

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Key Considerations

- **Growth in 4QFYE March 2018 ("4QFY2018") driven by acquisitions and redevelopment:** In 4QFY2018, gross revenue increased 11.4% y/y to SGD107.5mn driven by higher revenue from existing properties, Mapletree Hub Tsing Yi (acquired on 12 October 2017), contribution from the redeveloped Mapletree Pioneer Logistics Hub (formerly known as 76 Pioneer) and partly offset by a conversion of a building to multi-tenancy in South Korea, lower revenue from Ouluo Logistics Centre (undergoing redevelopment), absence of revenue from three divested buildings in 2QFY2018 (two in Japan and one in Singapore) and one divestment in 4QFY2018 (in Malaysia) and currency impact. With property expenses relatively constant, net property income increased 13.7% y/y to SGD91.3mn. In 4QFY2018, MLT recorded significant net movement in the value of investment properties of SGD240.3mn (2QFY2017: SGD39.0mn), chiefly, we saw MLT's Hong Kong portfolio (on a same store basis) increase HKD865mn (~SGD146.3mn) on the back of cap rate compression in Hong Kong. While there is no cash flow impact, this had helped in organic asset value growth. On a q/q basis, 4QFY2018 gross revenue grew 9.4%. MLT had expressed that this is mainly due to full quarter contribution from Mapletree Hub Tsing Yi and Mapletree Pioneer Logistics Hub (net lettable area increased 1.8x to 72,000 sqm from the original 40,922 sqm).

- **Healthy interest coverage:** EBITDA (based on our calculation which does not include other income and other expenses) was SGD80.3mn (also up 13.7% y/y), while interest expense was up 15.0% to SGD14.8mn as MLT took on more debt to fund acquisitions, resulting in a lower EBITDA/Interest coverage of 5.4x (versus 5.5x in 4Q2018). Perpetuals make up 6.8% of total capital as at 31 March 2018. Assuming that SGD17.0mn p.a is distributed to perpetual holders and if we take 50% of these as interest, we find Adjusted EBITDA/Interest coverage at 4.7x.

- **Significant lease expiries from existing portfolio:** As at 31 March 2018, 24.4% of MLT's portfolio by net lettable area will expire by end-March 2019, 81% of these relate to multi-tenanted buildings and relatively significant in our view. By geography, Singapore and Malaysia are the most vulnerable to lease expiries. Singapore while coming out from recent years of oversupply, is still seeing a soft leasing market. Portfolio weighted average lease expiry ("WALE") is now 3.5 years, having dropped from 4.0 years a year ago.

- **Proposed acquisition of China-based properties:** On 26 April 2018, MLT announced the proposed acquisition of a 50% economic interest in 11 China-based logistics properties (the “China Portfolio”) from its Sponsor and Itochu Corporation. A significant rental contributor to the China Portfolio are e-commerce and e-commerce related companies, with JD.com Inc making up 20.8% of rents and Cainiao (logistics company controlled by Alibaba) making up 19.3% of rents. As at 31 March 2018, the China portfolio makes up 5.2% of total asset by valuation. Post-acquisition, China is targeted to make up 9% of portfolio by valuation. The total acquisition price (excluding transaction cost) of SGD205.3mn comprise (1) an aggregate share consideration of RMB120.5mn (~SGD25.1mn) and (2) shareholders’ loans of RMB864.8mn (~SGD180.2mn) to be extended by MLT to the Hong Kong SPVs (that indirectly hold the assets). The companies to be acquired carry RMB944.2mn (~SGD196.7mn) in bank debt, of which we think MLT would assume 50%. As part of the acquisition, MLT would also hold pre-emptive rights to acquire the remaining 50% interest in the properties.

- **Largely equity indicative funding structure**: MLT has indicated an intention to fund the China Portfolio acquisition via an equity fundraising amounting to SGD200mn though the exact funding structure would be determined at a later date. Under the indicative structure, MLT has shared that aggregate leverage may reduce slightly by 20bps to 37.5% (taking into account proportionate debt and asset of the China Portfolio). We think the equity fund raising is intended to be in the form of an equity private placement (where Sponsor gets diluted). Post-equity fundraising, Sponsor’s current 35.7% stake in MLT may fall somewhat to 33.9%. Assuming the finalized structure does not differ from the indicative, this acquisition is somewhat credit positive. We estimate that EBTIDA/Interest may increase to 5.6x (including the 50% share of earnings of China Portfolio as EBITDA and assuming interest rate of 5.7% p.a of borrowing cost for the RMB debt at China Portfolio).

- **No near-term refinancing needs:** As at 31 March 2018, aggregate leverage was 37.7% (slightly below the 37.8% in end-2017). Taking 50% of perpetuals as debt, we find adjusted aggregate leverage at 41%. As at 31 March 2018, short term debt amounted to SGD53.2mn (representing only 2% of total debt). In April 2018, this debt had been refinanced with a new banking facility and there is no more debt outstanding for the 12 months to end-March 2019. All debt remains unsecured as at 31 March 2018.

- **7 Tai Seng divestment update:** On 11 August 2017, MLT announced the proposed divestment of 7 Tai Seng to its Sponsor for SGD68.0mn (representing 114% of valuation as at 31 March 2017). On 27 April 2018, MLT announced that the option to purchase held by Sponsor has been novated to MLT’s sister REIT, Mapletree Industrial Trust (“MINT”) instead. The deal was subject to JTC approval and remains so. MINT is a separately listed industrial REIT with total assets of SGD4.2bn as at 31 March 2018. Both MINT and MLT share the same Sponsor.

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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

Explanation of Bond Recommendation

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.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform 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.

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.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
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