Asia Credit Research

Earnings Review: Mapletree Logistics Trust ("MLT")

Issuer Profile: Neutral (4)

Ticker: **MLTSP**

Background

Mapletree Logistics Trust ("MLT") is the first Asia-focused logistics REIT in Singapore .Total assets were SGD7.9bn as at 31 December 2018. MLT currently owns 140 properties, inclusive of its 50%-economic interest in 11 properties in China. By asset value, MLT's assets are located in Singapore (32.1%), Hong Kong (30.0%), Japan (12.1%), China (8.1%) and others (17.7%) as at 31 December 2018. MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL").

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Recommendation

- MLT's gross revenue increased 23.0% y/y to SGD120.8mn in 3QFY2019 on the back of acquisition-led growth. Total assets (including the proportionate contribution from the 11 joint venture properties) had increased 25.7% since end-December 2017.
- In our view, any further asset acquisitions beyond the announced but yet completed Binh Duong deal in Vietnam will need to be equity funded to maintain stability of its external credit rating.
- We prefer Ascott Residence Trust ("ART") ARTSP 4.68%-PERP over MLTSP 4.18%-PERP. The ARTSP 4.68%-PERP is yielding 4.02% to first call in June 2020 versus the MLTSP 4.18%-PERP yielding 4.00% to first call, though with a later first call in November 2021. We hold both MLT and ART's issuer profile at Neutral (4).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield to Call	Spread
MLTSP 3.65%-PERP	28/03/2023	38.8%	4.25%	222bps
MLTSP 4.18%-PERP	25/11/2021	38.8%	4.00%	200bps
ARTSP 4.68%-PERP	30/06/2020	36.4%	4.02%	203bps

Indicative prices as at 24 January 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter; reset date equals first call date for both the perpetuals

Key Considerations

- **Acquisition led revenue growth:** Gross revenue for the third quarter of the financial year ended March 2019 ("3QFY2019") was up 23.0% y/y to SGD120.8mn on the back of higher revenue from existing properties, contribution from Mapletree Logistics Hub Tsing Yi, Hong Kong (bought in October 2017), contribution from Mapletree Ouluo Logistics Park (Phase 1 redevelopment completed in September 2018), acquisitions of five warehouse properties in Singapore (completed in September 2018) and Coles Distribution Centre in Brisbane, Australia and Wonjin Logistics Centre in South Korea, both acquired in November 2018. Gross revenue was partly offset by the absence of revenue from sale of a small Singapore property. In line with the asset expansion at MLT (up 25.7% since end-December 2017), management fees had also increased 24.6% y/y to SGD13.4mn.

- **Stable q/q interest coverage:** MLT completed the acquisition of a 50% economic stake in 11 properties in China from Sponsor. Including SGD2.5mn in interest income from shareholder's loan extended to 11 joint venture properties though excluding other income and other expenses, 3QFY2019 EBITDA was SGD93.4mn (up 29.5% y/y) while interest expense increased 43.3% y/y to SGD19.9mn on the back of higher debt taken for acquisitions. As such EBITDA/Interest was lower at 4.7x in 3QFY2019 against 5.2x in 3QFY2018. Q/q though, EBITDA/Interest had stayed relatively constant. Perpetuals make up 6% of total capital and assuming that MLT distributes SGD17.0mn in perpetual distribution p.a (SGD4.3mn per quarter) and taking 50% of these as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 4.2x.

- **Leverage high among REITs, with equity needed for future purchases:** Joint venture debt is not consolidated on MLT's balance sheet though including such debt, gross debt as at 31 December 2018 was SGD3.1bn, up SGD105mn from 30 September 2018. Reported aggregate leverage at MLT is now 38.8% (including the proportionate debt and assets at the China joint venture level). Adding 50% of perpetuals as debt, we estimate adjusted aggregate leverage at MLT to be ~44%. Short term debt coming due in the next 12 months is minimal at SGD81.3mn (only makes up 3% of total debt) while all assets remain unencumbered. We see minimal refinancing risk at MLT. In November 2018, MLT announced the proposed acquisition of a warehouse in the Vietnam-Singapore Industrial Park I, (in Binh Duong, Vietnam) for a bite-size ~SGD43mn, with the property intended to be leased to Unilever Vietnam for 10 years and debt funded. Sponsor MAPL has a large pipeline of logistics developments in Asia, (73% by gross floor area ("GFA") in China). 16 projects in China, collectively with 1.3mn sqm of GFA have been completed. In our view, these could form MLT's pipeline of assets though, further asset purchases (beyond the Unilever Vietnam asset) would need to be equity funded for MLT to maintain the stability of its external rating.

- **Some tenant concentration risk:** As at 31 December 2018, MLT's portfolio occupancy was 97.7% and very healthy. All geographies saw a stable-to-increased q/q occupancy rate, with the exception of China which fell to 95.8% (98.3% as at 30 September 2018). We understand that the main reason for this was a major Chinese e-commerce tenant reducing its space though some of the space has been backfilled by smaller tenants. CWT Pte Ltd (("CWT") owned by CWT International Ltd (Issuer Profile: Negative (6)) is the largest tenant contributing 9.1% of gross revenue. Apart from the tenant concentration to CWT, the remaining gross revenue looks to be much less concentrated, with Coles Group being the second largest tenant at 4.3% and the total top ten tenants contributing ~29%. We maintain MLT at an issuer profile of Neutral (4) for now.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") 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.

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Analyst Declaration

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