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 SGD7.7bn as at 30 September 2018. MLT currently owns 138 properties, inclusive of its 50%-economic interest in 11 properties in China. By asset value, MLT's assets are located in Singapore (33.0%), Hong Kong (30.4%), Japan (12.5%), China (8.2%) and others (15.9%) as at 30 September 2018. MLT is sponsored by Mapletree Investments Pte Ltd ("MAPL") who now holds a ~30.9%-stake in MLT.

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Recommendation

- MLT's SGD818.1mn purchase of five warehouses in September 2018 was funded by a combination of common equity and new borrowings (rather than perpetuals). Despite the receded supply risk of MLTSP perpetuals, the perpetuals traded 15-25 bps wider since early-October 2018, perhaps due to perception of increased call risk.
- Our base case assumes that REITs such as MLTSP would still attempt to call at first call, even though there are no step-up margins. In our view, REITs are reliant on continued access to financing markets and would only exercise its "non-call option" in cases where replacement capital is overly cost prohibitive.
- Based on current prices, it appears that the market is already pricing in some non-call risk on the MLTSP 3.65%-PERP while still pricing in a call on the MLTSP 4.18%-PERP.
- With the market sentiments still mixed with regards to duration papers, we are maintaining a cautious stance towards perpetuals and are lowering both the MLTSP 3.65%-PERP and MLTSP 4.18%-PERP to Underweight from Neutral. We continue to hold MLTSP'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	38.1%	4.24%	184bps
MLTSP 4.18%-PERP	25/11/2021	38.1%	4.05%	174bps

Indicative prices as at 23 October 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter; reset date equals first call date for both the perpetuals

Key Considerations

- **Growth in revenue:** Gross revenue for the second quarter of the financial year ended March 2019 ("2QFY2019") was up 13.8% y/y to SGD106.6mn on the back of higher revenue from existing properties and full quarter contribution from acquisitions in Hong Kong (Mapletree Logistics Hub Tsing Yi in October 2017 and taking full ownership of Shatin No.3 in January 2018), partly offset by absence of revenue (sale of four properties in FY2018 and the divestment of 7 Tai Seng in June 2018). On a q/q basis, gross revenue increased by 1.1%, driven by higher same-store growth from existing properties in Hong Kong and Singapore, stronger HKD against the SGD and a small contribution from five ramp-up warehouses acquired from CWT Pte Ltd ("CWT SG"). The acquisition was completed on 28 September 2018.

- **Narrower but still healthy interest coverage ratio:** In June 2018, MLT completed the acquisition of a 50% economic stake in 11 properties in China from the Sponsor (the remaining 50% is still held by Sponsor). This purchase is recorded under the equity accounting method and MLT shared that the contribution from joint venture was SGD2.3mn in 2QFY2019. Including this contribution into EBITDA but excluding other income and other expenses, we find EBITDA 17.1% higher y/y to SGD80.5mn. Borrowing costs was 33.9% higher y/y at SGD16.8mn on the back of higher levels of borrowings to fund acquisitions. Average debt for 2QFY2019 was SGD2.7bn against SGD2.0bn in 2QFY2018. Resultant EBITDA/Interest was thus lower at 4.8x (2QFY2018: 5.5x), though still healthy. MLT has SGD430.0mn in perpetuals and we find EBITDA/(Interest plus 50% perpetual distribution) at 4.3x.

- **More levered versus peers:** As at 30 September 2018, MLT's reported aggregate leverage was 38.1%; this includes the proportionate share of borrowings and properties held at the joint venture. We estimate that adjusted aggregate leverage taking into account 50% of perpetual as debt at 41%. Refinancing risk is minimal with short term debt due of SGD31.5mn (representing only 1.1% of gross debt). As at 30 September 2018, MLT's cash balance was SGD125.7mn, more than sufficient to pay down the short term debt (if MLT so choose) and to cover the Phase 2 redevelopment of the Ouluo Logistics Centre in China. Post-quarter end, MLT had also received a further SGD22.4mn from the divestment of a small property in Singapore. All debt remains unsecured.

- **Tenant concentration to CWT SG:** In 2QFY2019, MLT paid out SGD818.1mn in cash for the acquisition cost of the warehouses from CWT SG. This comprised SGD730mn in purchase consideration and the remaining in transaction cost and SGD48.3mn in balance lease terms paid to JTC. SGD375mn of new equity was raised in a private placement for the purchase, with the rest coming from new borrowings. As a result of the equity fundraising, Sponsor's stake in MLT reduced to ~30.9% from ~35.7% as at 31 May 2018. Going forward, MLT would have a more concentrated tenant profile with CWT SG as the largest tenant making up 9.5% of MLT's gross revenue. In 1QFY2019, the single largest tenant of MLT only contributed 3.5% to gross revenue. We rated the issuer profile of CWT International Ltd (CWT SG's parent company) at Negative (6). That being said, we understand that MLT is looking to increase the proportion of third party users of the space within these warehouses, which could help reduce the underlying concentration risk. Currently about 30% of the gross revenue contributed by CWT SG is attributable to third party end-users under sub-leasing agreements with CWT SG.

- **Operating metrics manageable:** As the new Singapore warehouses are 100%-occupied (fully leased to CWT SG under a sales-and-leaseback arrangement), portfolio occupancy rate rose to 97.6% as at 30 September 2018 versus 95.7% as at 30 June 2018. Portfolio rental reversion was +1.3%, mainly from Hong Kong and Vietnam. In 1QFY2019, this was +2.0% and +2.6% in FY2018. Encouragingly though, Singapore saw rental reversions of +0.5% in 2QFY2019. As at 30 June 2018, 19.5% of properties by net lettable area was coming due end-FY2019, though by end-September 2018, this had decreased to only 12.8%. Weighted average lease expiries are 3.8 years as at 30 September 2018 (3.3 years as at 30 June 2018).

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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

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Analyst Declaration
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