

Earnings Review: Mapletree Industrial Trust ("MINT")

Recommendation

- 1QFY2020 revenue growth was driven by new Hi-Tech properties, with 18 Tai Seng being its latest acquisition.
- Aggregate leverage was 33.4% at end June 2019, though expected to climb as a result of Kolam Ayer 2 redevelopment. EBITDA/Interest coverage remains stable at 6.6x.
- Overall, MINT continues to pursue opportunities in the Hi-Tech Buildings space and shift away from Flatted Factories as reflected in its contribution to the portfolio's revenue and NPI.
- We think MINTSP bonds are largely trading fair and in line with the market, though there seems to be slightly more value in the medium to long end of the curve. Relative to its own curve, we think MINTSP 3.16% '24s looks the most interesting. This bond offers a 2.72% yield to worst and a spread of 106 bps over swap which is ~11bps over MINTSP '23s for a 10 month longer tenor and ~13bps less than MINTSP '26s for a ~2 year shorter tenor.
- We continue to hold MINT at an issuer profile of Neutral (3).

Relative Value:

Bond	Maturity/Call date	Net Gearing	Ask Yield	Spread
MINTSP 3.65% '22s	07/09/2022	33.4%	2.50%	86bps
MINTSP 3.02% '23s	11/05/2023	33.4%	2.60%	95bps
MINTSP 3.16% '24s	28/03/2024	33.4%	2.73%	107bps
MINTSP 3.79% '26s	02/03/2026	33.4%	2.93%	118bps
MINTSP 3.58% '29s	26/03/2029	33.4%	3.16%	127bps

*Indicative prices as at 29 Jul 2019 Source: Bloomberg
Net gearing based on latest available quarter*

Key Considerations

- New Hi-Tech properties drove growth:** Gross revenue increased by 8.8% y/y to SGD99.6mn for financial year ended 31 March 2020 ("1QFY2020"). This was largely driven by contributions from 18 Tai Seng which was acquired on 1 Feb 2019, 30A Kallang Place (completed on 13 Feb 2018) and Mapletree Sunview 1 (completed on 13 Jul 2018). NPI though grew by a greater extent of 12.2% y/y to SGD77.9mn due to lower property operating expense (down 1.7% y/y), in particular property maintenance expenses. On a q/q basis, revenue and NPI was up by 0.8% and 2.7%, mainly on the back of a full quarter revenue contribution from 18 Tai Seng and lower property maintenance expenses and marketing commissions.
- Stable growth can be expected:** On top of the growth factors mentioned above, MINT has completed the upgrading of 7 Tai Seng Drive on 3 Jul 2019, and the entire property is committed to Equinix Singapore for a term of 25 years (including 2 months of rent-free period) with annual rental escalations commencing on 20 Jul 2019. As such, we can expect to see some contributions in 2QFY2020 and a subsequent full quarter contributions in 3QFY2020. While these contributions are likely to drive top line numbers, the redevelopment of Kolam Ayer 2 Cluster (commencing in 2HFY2021) could offset some of these gains. Consequentially, we think net-net y/y growth may remain largely stable for the coming quarters.
- Continue to focus on the Hi-Tech Buildings segment ("HTB"):** The shift from Flatted Factories to HTB has been ongoing. At present, HTB contribute to 37.1% of MINT's revenue, up 7.3% relative to a year ago while we see the proportion of revenue from Flatted Factories fall by 5.5% to 38.6%. With the redevelopment Kolam Ayer 2 Flatted Factory cluster into a high-tech industrial precinct, we expect the shift to accelerate. This project is estimated to cost ~SGD263mn and utilise untapped plot ratio. The eventual development will have a much larger

Issuer Profile: Neutral (3)

Ticker: **MINTSP**

Background

Mapletree Industrial Trust ("MINT") owns a portfolio of 87 industrial properties including Flatted Factories, Hi-Tech Buildings, Stack-up/Ramp-up Buildings and Light Industrial Buildings in Singapore and 14 data centres in the US via a 40% interest in a joint venture with its Sponsor – Mapletree Investments Pte Ltd. Listed on the SGX since 2010, MINT has a market cap of SGD4.55bn. As at 30 June 2019, MINT's total assets was SGD4.80bn.

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GFA (~1.7x original GFA). Included in the redevelopment is a build-to-suit facility for a global medical device company who will become an anchor tenant (~24.4% of total enlarged GFA) with an initial lease term of 15 years, with option to renew for two additional five year terms. Expected completion is in 2HFY2023.

- **Broad-based weak rental reversions:** Interestingly, MINT recorded negative rental reversions for majority of its property segments over the quarter. Stack up/ Ramp up segment saw renewed rents lower by 9.7%, followed by Hi-Tech Buildings at 8.25% lower. Both Flatted Factories and Business Parks' renewal rents were ~4-5% lower. We think this could have been the trade off to retain tenants as portfolio occupancy had improved by 0.6% to 90.8% relative to the preceding quarter. That said, we are not overly concerned about the negative rental reversion because overall average passing rental rate psf/mth which was SGD2.10 in 1QFY2020 is + 4.0% y/y and + 1.4% q/q. This means that MINT saw higher rental rate on average, across its Singapore properties. This was on the back of rental rate growth in Hi-Tech Buildings property segments, which more than offset the rental rate declines in other property segments (on both y/y and q/q basis).
- **Hi-Tech Buildings segment remains firm:** Relative to the other building types and segments in MINT's portfolio, HTB continues to be strong. Occupancy level improved y/y from 94.7% to 97.1% (above overall portfolio occupancy rate of 90.8%), with a strong retention rate of 99.5%. HTB is the most occupied segment within MINT's portfolio with the highest retention rate. A similar trend can be observed on the rent rate front, with HTB recording a 9.8% y/y increase in passing rent while the other segments reported low single digit y/y decline. As such, we think MINT's continuous pursuit to grow its exposure to HTB makes sense. In the meantime, despite MINT's pursuit, Flatted Factories continues to be the largest contributor to MINT's gross revenue and NPI. Looking forward, MINT has 12.3% of leases by gross rental income expiring in FY2020 with Flatted Factories making up the bulk. We note that the retention rate for Flatted Factories is 75.5%, and passing rent was down 1.7% y/y in 1QFY2020 though stable q/q.
- **Manageable credit health, though aggregate leverage looks set to climb:** MINT has a well-distributed debt profile, with just SGD75mn of bank borrowings coming due in FY2020. In addition, all of its borrowings are unsecured. This would mean that MINT has financial flexibility to pledge its assets for borrowings if needed. Management have also brought up plans to raise overseas exposure to 30% from the previous target of 20% of asset under management. We note that as at 30 June 2019, its' only overseas exposure is 9.1% of its portfolio value in the US. While an aggregate leverage of 33.4% at end June 2019 may signal debt headroom to pursue acquisitions, we think this value may to jump to ~35.8% if the Kolam Ayer 2 redevelopment were to be fully debt funded. EBITDA/Interest was improved marginally q/q to 6.6x from 6.5x in the preceding quarter.

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Explanation of Issuer Profile Rating / Issuer Profile Score

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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.

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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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