

Issuer Profile:

Neutral (4)

Ticker:

MLTSP

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Mapletree Logistics Trust (“MLT”)

Recommendation

- MLT’s first quarter results for the financial year ended March 2019 (“1QFY2020”) saw y/y revenue growth of 13.6%, driven by acquisitions. On a q/q “same-store” basis, we estimate that gross revenue grew by ~0.9%. Interest coverage while have declined remains manageable while reported aggregate leverage had marginally declined to 36.8%, though we think this is temporal as we expect MLT to remain acquisitive amidst its ongoing portfolio rejuvenation.
- While 2Q2019 saw an uptick in overall Singapore industrial space sector, we are less positive over the 2H2019 outlook, in particular for the Singapore warehouse sub-segment. MLT’s geographically diversified profile should provide a buffer vis-à-vis portfolios that are more exposed to just Singapore (eg: Cache Logistics Trust (Issuer Profile: Neutral (4))).
- We see Ascott Residence Trust (“ART”) as MLT’s closest comparable, given that both are large cap REITs who tend to maintain higher adjusted aggregate leverage versus their REIT peers. We prefer the MLTSP 4.18%-PERP over the ARTSP 4.68%-PERP and think the ~50bps yield pick up more than compensates for MLTSP 4.18%-PERP’s 1.4 years longer first call date.
- We hold both MLT and ART’s issuer profile at Neutral (4) though monitoring ARTSP for a potential upgrade given its proposed combination with Ascendas Hospitality Trust.

Relative Value:

Bond	Maturity / Call date	Aggregate leverage	Ask YTC / YTM	Spread
MLTSP 3.65%-PERP	28/03/2023	36.8%	3.57%	199bps
MLTSP 4.18%-PERP	25/11/2021	36.8%	3.48%	188bps
ARTSP 4.68%-PERP	30/06/2020	32.8%	2.97%	131bps

*Indicative prices as at 5 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter*

Background

- Mapletree Logistics Trust (“MLT”) is the first Asia-focused logistics REIT listed in Singapore. Total assets were SGD8.0bn as at 30 June 2019. MLT currently owns 137 properties, inclusive of its 50%-economic interest in 11 properties in China.
- By asset value, MLT’s assets are located in Singapore (32.7%), Hong Kong (31.7%), Japan (10.1%), China (8.0%), Australia (7.8%) and others (9.7%) as at 30 June 2019. MLT is sponsored by Mapletree Investments Pte Ltd (“MAPL”).

Key Considerations

- “Same-store” q/q revenue likely to have increased:** MLT’s gross revenue for the quarter ended 30 June 2019 (“1QFY2020”) was up 13.6% y/y to SGD119.8mn on the back of the completed redevelopment of Mapletree Ouluo Logistics Park Phase 1 in China (completed in September 2018 and fully occupied), acquisitions in Singapore (five logistics facilities acquired from CWT Pte Ltd and its subsidiaries in September 2018), Australia (Coles Distribution Centre in Brisbane November 2018), South Korea (Wonjin Logistics in November 2018) and Vietnam (warehouse in Binh Duong in January 2019), partly offset by absence of revenue from sale of five properties in Japan in April 2019, two properties in Singapore in 2018, and a weaker AUD, RMB and KRW against the SGD. On a q/q basis, gross revenue was down 1.3%, mainly due to the absence of revenue from the sale of the Japan properties. For FY2019, these properties collectively contributed ~SGD12.1mn of revenue. We estimate that on a same-store basis (removing the impact of the five Japan properties) from both 1QFY2020 and 4QFY2019, revenue would have increased by ~0.9% q/q. Encouragingly, MLT’s portfolio occupancy had held up at 97.6% (31 March 2019: 98.0%).

- **Weaker interest coverage but still manageable:** EBITDA (based on our calculation which does not include other income and other expenses but including SGD2.0mn in interest income from shareholders' loans extended to 11 joint venture properties) was SGD94.5mn, up 20.1% y/y although interest expense (excluding lease liabilities) was up by 29.6% y/y, mainly due to an increase in debt taken to fund new acquisitions and an increase in interest rate by 30bps (as at 30 June 2019, weighted average annualised interest rate of 2.8%). Resultant EBITDA/Interest coverage was 4.7x (1QFY2019: 5.1x). As at 30 June 2019, MLT has SGD430mn of perpetuals outstanding, assuming that distributions are fully paid out, this is SGD17.0mn p.a or SGD4.3mn per quarter. Taking 50% of this as interest, EBITDA/(Interest plus 50% perpetual distribution) was 4.2x (1QFY2019: 4.5x), still manageable.
- **Minimal refinancing risk:** As at 30 June 2019, reported aggregate leverage which includes the proportionate share of borrowings and assets at joint ventures (ie: the 11 joint venture properties in China) was 36.8%, down from 37.7% as at 31 March 2019. During the quarter, MLT generated SGD208.6mn in cash from the sale of properties in Japan and paid down SGD150.6mn (net of repayment of borrowings). Including 50% of the perpetuals as debt, we estimate adjusted aggregate leverage at ~40% as at 30 June 2019, which is on the higher side versus other REITs in our coverage, though marginally lower than MLT's recent past. As at 30 June 2019, MLT faces minimal short term debt of SGD83.6mn, making up only 2.9% of consolidated debt while all consolidated debt remains unsecured.
- **Rejuvenation an ongoing theme:** MLT continues to focus on portfolio rejuvenation, shedding assets with little growth potential while buying new assets. On an overall basis though, we expect MLT to be a net acquirer including from its Sponsor pipeline while divestments tend to be more protracted based on our observation. For example, MAPL indirectly owns the remaining 50% of 11 joint venture properties in China. In the event MAPL wants to sell the 50%-stake, MLT has pre-emptive rights over that stake.

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

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist

NqCYEmmanuel@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Alan Lau

Malaysia & Indonesia

AlanLau@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

treasuryresearch@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W