



Dream Industrial REIT (DREUF)

Updated July 4th, 2019 by Noah Horwood

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	0.4%	Volatility Percentile:	15.4%
Fair Value Price:	\$8	5 Year Growth Estimate:	2.4%	Momentum Percentile:	81.2%
% Fair Value:	150%	5 Year Valuation Multiple Estimate:	-7.8%	Growth Percentile:	10.8%
Dividend Yield:	5.8%	5 Year Price Target	\$9	Valuation Percentile:	6.7%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	7.2%

Overview & Current Events

Dream Industrial REIT is a national industrial REIT that owns high-quality light industrial properties. The company owns and operates a portfolio of 223 geographically diversified light industrial properties, which makes up 20 million square feet of gross leasable area across predominantly Canada, with some operation in the United States. The company's portfolio includes 63% of their gross leasable area in multi-tenant buildings and the remaining 37% in single-tenant buildings. 2018 was a transitional year for Dream Industrial; the company made progress on the execution of their strategic initiatives; adding scale in their target markets, improving their overall portfolio quality and increasing their balance sheet strength. From December of 2017 to December of 2018, the company closed over \$264 million of acquisitions across North America. Dream Industrial currently has a focus on driving occupancy and rental rates, furthering their leasing operations and internal growth. The company has new operations in the Midwestern United States which it obtained through acquisitions. This \$5.9 billion market capitalization company is listed on the Toronto Stock Exchange under the ticker DIR.UN or in the U.S. under the trading symbol DREUF. All figures included are in the company's home currency, the Canadian Dollar (CAD).

On May 7th, 2019 Dream Industrial released Q1 results for the period ending March 31st, 2019 and full year results for period ending December 31st, 2018 were reported on February 19th, 2019. Funds from operations per share (FFO/S) for the quarter totaled \$25.0 million (\$0.21 per share) against \$21.2 million (\$0.23 per share) in Q1 of 2018. For the year FFO/S totaled \$88 million (\$0.86) against \$75 million (\$0.92) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	N/A	N/A	N/A	\$0.93	\$0.97	\$0.97	\$0.92	\$0.92	\$0.86	\$0.89	\$1.00
DPS	N/A	N/A	N/A	N/A	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70	\$0.70	\$0.79
Shares	N/A	N/A	N/A	N/A	54.9	58.0	58.6	59.6	75.1	92.1	112.9	137.2

We used funds from operations per share (FFO/S) as Dream Industrial's primary growth metric because it gives an accurate representation of a REIT company's cash flow. Since EPS depreciates income properties that would typically increase in value FFO/S is usually a better valuation technique for REITs. Dream Industrial has reportable operations for seven years and in that time FFO/S has declined by 7.5%. To calculate Dream Industrial's future FFO/S we used a modest 3% growth rate which results in FFO/S of \$1.00 by the year 2024, and drives a 5-year price target of \$9.40. To achieve this growth over the foreseeable future Dream Industrial plans to accelerate capital recycling and acquire and develop best in class industrial assets that have strong income growth potential.

Dream Industrial has had quite an attractive dividend yield historically, but the company has kept their dividend at \$0.70 per share annually (paid monthly at \$0.058) since the subsidiary began issuing dividends in January of 2013. The company's dividend yield has been decreasing while Dream Industrial's share price has been growing. We expect by the year 2024 the company will raise their dividends along with their future growth to roughly \$0.79 or \$0.066 per monthly payment, which by our calculations would equate to a 6.6% yield.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	N/A	9.7	9.0	7.6	9.5	9.7	11.1	14.1	9.4
Avg. Yld.	N/A	N/A	N/A	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.8%	6.6%

Dream Industrial's average price to funds from operations ratio (P/FFO) is 9.4. Comparing current average P/FFO ratios to their historic average Dream Industrial is overvalued at current prices, which is not sustainable over time. We believe the REIT's historical average P/FFO ratio is a reasonable proxy for fair value. We expect valuation multiple compression to reduce total returns by 7.8 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	75%	72%	72%	76%	76%	81%	79%	82%

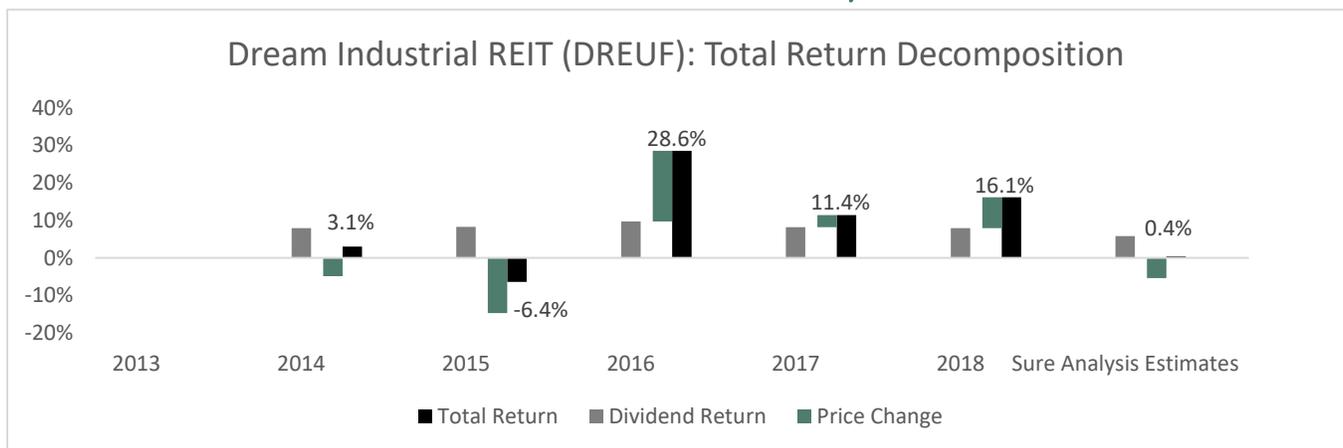
Dream Industrial has a focus on sustainability. The company believes sustainability not only benefits the environment, but also tenants, stakeholders and the communities in which the company operates. Dream Industrial's sustainability strategy guides how the company runs their business and how they manage environmental and social obligations. The company believes building and maintaining high-quality building allows them to protect their asset value and sustain high occupancy rates. In 2018 Dream Industrials committed occupancy is an outstanding 97%. One key initiative which Dream Industrial has a focus on is energy efficiency. The company achieves this through lighting retrofit projects and utilizing renewable power to offset their grid consumption.

Dream Industrial has not been around for a recessionary period, but we can assume that a recession would be a risk. During a recession the company would face the possibility of declining rent revenue as tenants could become unable to pay rents. Additionally, Dream Industrial would likely not be able to dispose of assets at a reasonable price to generate cash flows in a severe recession, as property values would likely decline significantly.

Final Thoughts & Recommendation

Overall, we expect total returns of 0.4% annually, mainly driven by their 5.8% annual yield on dividends, followed by a 2.4% improvement coming from growth and very large reduction on total returns of -7.8% coming from our valuation analysis. As a result, we rate Dream Industrial REIT as a sell at current prices, investors should consider that the security is currently significantly overvalued.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue				17	143	166	177	175	172	194
Gross Profit				13	99	113	119	117	117	134
Gross Margin				72.9%	69.2%	67.8%	67.5%	67.2%	67.8%	69.1%
SG&A Exp.				1	7	8	9	10	7	9
D&A Exp.					2	2	0	1	2	3
Operating Profit				12	92	104	110	107	108	123
Operating Margin				67.9%	64.0%	62.8%	62.4%	61.5%	62.5%	63.5%
Net Profit				-21	84	68	35	-3	35	158
Net Margin				-121.3%	58.8%	40.9%	19.9%	-1.5%	20.1%	81.4%
Free Cash Flow				6	50	47	50	40	52	64
Income Tax					1	1	0	-1	0	1

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets				1193	1590	1743	1721	1658	1808	2161
Cash & Equivalents				2	0	0	1	7	55	5
Accounts Receivable				1	2	2	5	1	1	1
Goodwill & Int. Ass.					35	35				
Total Liabilities				866	1019	1114	1094	1067	1096	1171
Accounts Payable				2	5	3	1	1	14	21
Long-Term Debt				656	840	921	923	868	890	938
Shareholder's Equity				326	571	629	627	591	712	989
D/E Ratio				2.01	1.47	1.47	1.47	1.47	1.25	0.95

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets					6.0%	4.1%	2.0%	-0.2%	2.0%	7.9%
Return on Equity					18.7%	11.3%	5.6%	-0.4%	5.3%	18.5%
ROIC					7.0%	4.6%	2.3%	-0.2%	2.3%	8.9%
Shares Out.				54.9	58.0	58.6	59.6	75.1	92.1	112.9
Revenue/Share				0.47	2.60	2.86	3.02	2.94	1.89	1.80
FCF/Share				0.18	0.90	0.81	0.85	0.67	0.57	0.59

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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