



Dream Industrial REIT (DREUF)

Updated November 28th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	4.9%	Volatility Percentile:	9.8%
Fair Value Price:	\$9	5 Year Growth Estimate:	2.4%	Momentum Percentile:	93.8%
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Growth Percentile:	15.1%
Dividend Yield:	5.0%	5 Year Price Target	\$10	Valuation Percentile:	10.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	9.4%

Overview & Current Events

Dream Industrial REIT is a national industrial REIT that owns high-quality light industrial properties. The trust 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 trust's portfolio includes 63% of its gross leasable area in multi-tenant buildings and the remaining 37% in single-tenant buildings. Dream Industrial currently has a focus on driving occupancy and rental rates, furthering its leasing operations and internal growth. The trust has new operations in the Midwestern United States which it obtained through acquisitions. This \$1.5 billion market capitalization trust is listed on the Toronto Stock Exchange under the ticker DIR.UN or in the U.S. under the trading symbol DREUF.

On November 5th, 2019 Dream Industrial released Q3 results for the period ending September 30th, 2019. Diluted FFO per Unit for the quarter was 19 cents, compared to 21 cents in the year-ago quarter. FFO per Unit was lower primarily due to lower leverage, partially offset by higher comparative properties NOI across all regions and net rental income from our acquired properties. As a result, we are not concerned about the volatility in cash flows per share. In fact, net rental income for the quarter increased by 25% over the prior year comparative quarter due to higher net rental income from investment properties acquired in 2018 and 2019, as well as higher comparative properties NOI across all regions.

The trust also commenced leases on 698,000 square feet during the quarter with an overall retention ratio of 46.5%. While the retention ratio might seem poor, it was largely impacted by a 111,000 square foot tenant vacancy in the Greater Toronto Area which management expects to quickly refill at an even higher rent than previously generated by the property as leasing demand for industrial properties in this area is very strong. As of quarter end, overall in-place and committed occupancy was 96.2%.

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	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	\$0.79
Shares¹	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'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 growth rate which results in FFO/S of \$1.00 by the year 2024, and drives a 5-year price target of \$10. 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 trust has kept its dividend at \$0.53 per share annually (paid monthly at \$0.044) since the subsidiary began issuing dividends in January of 2013. The trust's

¹ In millions

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.



Dream Industrial REIT (DREUF)

Updated November 28th, 2019 by Samuel Smith

dividend yield has been decreasing while Dream Industrial's share price has been growing. We expect by the year 2024 the trust will raise its dividends along with its future growth to roughly \$0.79 or \$0.066 per monthly payment, which, by our calculations, would equate to a 7.9% yield.

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	11.8	10.0
Avg. Yld.	N/A	N/A	N/A	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	7.9%

Dream Industrial's average price to funds from operations ratio (P/FFO) is 9.4. Comparing current average P/FFO ratios to its historic average, Dream Industrial is overvalued at current prices, which is not sustainable over time. While we believe that improving fundamentals in the Industrial sector (due to the growth of ecommerce) warrants a higher multiple, we still believe the REIT will experience some multiple contraction in the coming 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%	60%	79%

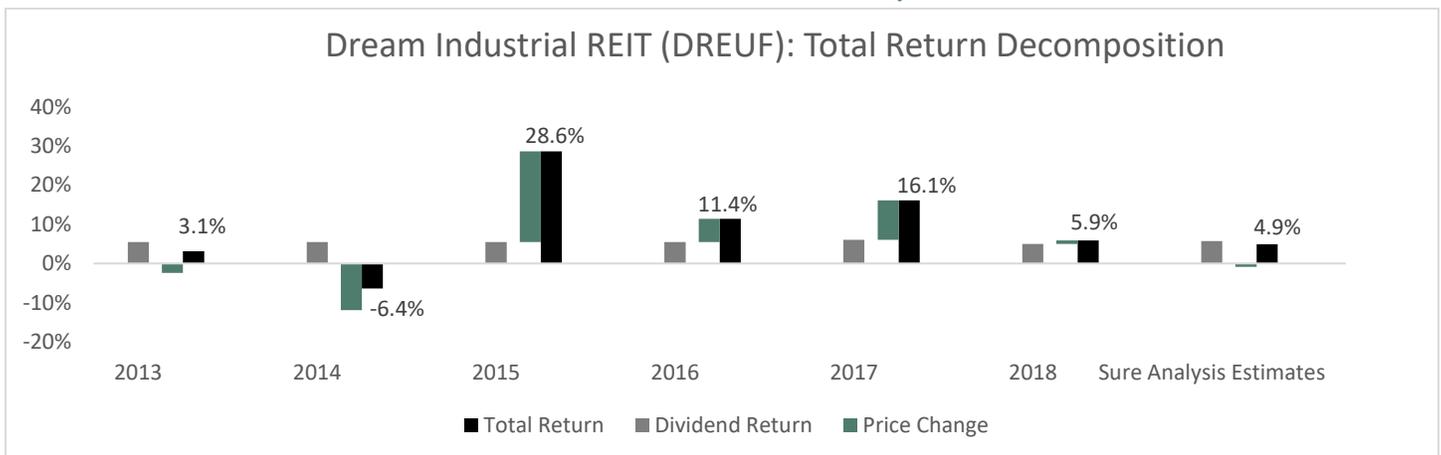
Dream Industrial has a focus on sustainability. The trust believes sustainability not only benefits the environment, but also tenants, stakeholders and the communities in which the trust operates. Dream Industrial's sustainability strategy guides how the trust runs its business and how it manages environmental and social obligations. The trust believes building and maintaining high-quality building allows it to protect its asset value and sustain high occupancy rates. One key initiative which Dream Industrial has is a focus on is energy efficiency. The trust achieves this through lighting retrofit projects and utilizing renewable power to offset its grid consumption, for example.

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 trust 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 4.9% annually, mainly driven by its 5% dividend yield as well as modest growth. As a result, we rate Dream Industrial REIT as a hold at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Dream Industrial REIT (DREUF)

Updated November 28th, 2019 by Samuel Smith

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.