



# Dream Industrial REIT (DREUF)

Updated June 24<sup>th</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$7.0	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$1.26B
<b>Fair Value Price:</b>	\$6.0	<b>5 Year Growth Estimate:</b>	5.2%	<b>Ex-Dividend Date:</b>	6/28/20
<b>% Fair Value:</b>	125%	<b>5 Year Valuation Multiple Estimate:</b>	-4.4%	<b>Dividend Payment Date:</b>	7/15/20
<b>Dividend Yield:</b>	7.6%	<b>5 Year Price Target</b>	\$7.20	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	NA

## 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 \$1.3 billion market capitalization trust is listed on the Toronto Stock Exchange under the ticker DIR.UN, and in the U.S. under the trading symbol DREUF.

On May 6<sup>th</sup>, 2020 Dream Industrial released Q1 results. Diluted FFO per unit for the quarter came in at \$0.17 (down from \$0.21 in the year-ago quarter). The main driver of the decline was the trust engaging in an aggressive portfolio high-grading and balance sheet deleveraging effort in order to position the REIT more defensively. Comparative properties NOI for the quarter grew by 0.6% year-over-year, reflecting healthy business fundamentals as occupancy and rental rates both remained strong. NAV per unit stood at \$11.84 at quarter end, up 0.7% sequentially.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>FFO/S</b>	N/A	N/A	N/A	\$0.93	\$0.97	\$0.97	\$0.92	\$0.92	\$0.86	\$0.78	<b>\$0.70</b>	<b>\$0.90</b>
<b>DPS</b>	N/A	N/A	N/A	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	\$0.53	<b>\$0.53</b>	<b>\$0.60</b>
<b>Shares<sup>1</sup></b>	N/A	N/A	N/A	54.9	58.0	58.6	59.6	75.1	92.1	112.9	<b>112.9</b>	<b>137.2</b>

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 \$0.90 by the year 2025 and drives a 5-year price target of \$7.20. 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 dividend yield has been decreasing while Dream Industrial's share price has been growing. We expect by the year 2025 the trust will raise its dividends along with its future growth to roughly \$0.79 or \$0.066 per monthly payment. Given that e-commerce has seen a surge in demand from the social distancing practices being enforced during the coronavirus pandemic, we expect that the trust's growth trajectory will remain largely unimpacted by the event.

<sup>1</sup> In millions

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## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	N/A	N/A	N/A	9.7	9.0	7.6	9.5	9.7	11.1	11.8	<b>10.0</b>	<b>8.0</b>
Avg. Yld.	N/A	N/A	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	<b>7.6%</b>	<b>8.3%</b>

Dream Industrial's historical average price to funds from operations ratio (P/FFO) is 9.4. Comparing the current P/FFO ratio to its historic average, Dream Industrial is slightly overvalued at current prices. With the significant headwinds plaguing the economy, we are reducing our fair value estimate to 8 times FFO, meaning that shares are even more overvalued at present.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	75%	72%	72%	76%	76%	81%	68%	<b>76%</b>	<b>67%</b>

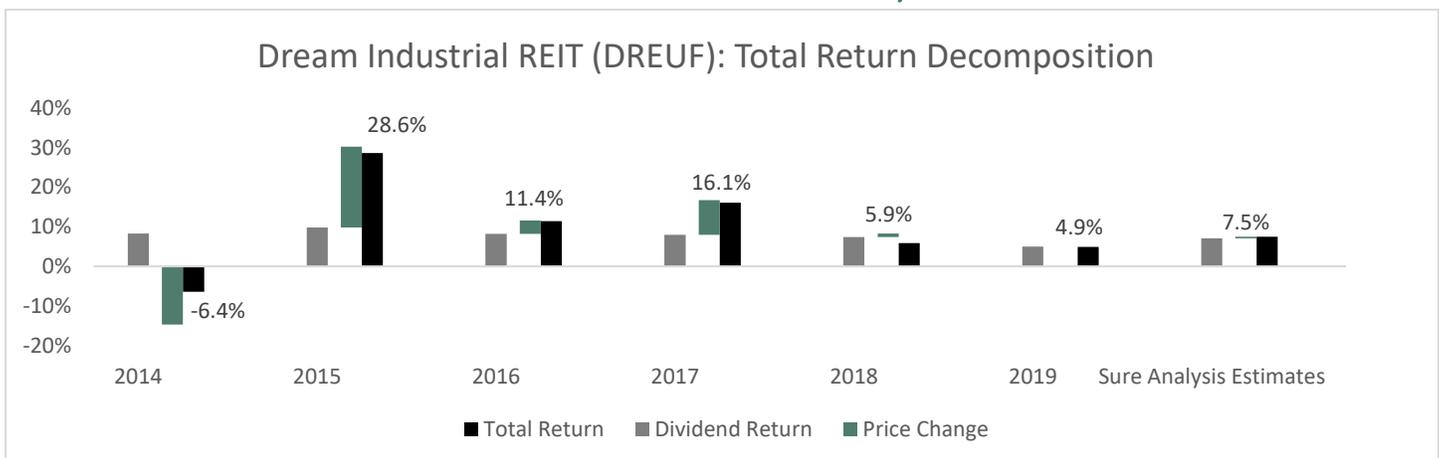
Dream Industrial has a focus on sustainability. The trust believes sustainability not only benefits the environment, but also tenants, stakeholders and the communities in which the trust operates. Dream Industrial's sustainability strategy guides how the trust runs its business and how it manages environmental 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 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. That being said, the company recently completed an aggressive portfolio high grading and balance sheet deleveraging program, reducing capex requirements, improving tenant quality, and increasing the safety of its dividend. As a result, we feel that it is well positioned to weather a recession, especially given the tailwinds from e-commerce.

## Final Thoughts & Recommendation

Overall, we expect total returns of 7.5% annually, mainly driven by DREUF's 7.6% dividend yield as well as modest growth offsetting multiple compression. As a result, we rate Dream Industrial REIT as a hold at current prices.

## 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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