



Dream Industrial REIT (DREUF)

Updated May 17th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$12	5 Year CAGR Estimate:	0.3%	Market Cap:	\$2.2B
Fair Value Price:	\$8	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	05/28/21
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.2%	Dividend Payment Date:	06/15/21
Dividend Yield:	5.7%	5 Year Price Target	\$9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	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 280 geographically diversified light industrial properties, which makes up 28.8 million square feet of gross leasable area across predominantly Canada, with some operation in the United States. Most of the portfolio's gross leasable area is in multi-tenant buildings with the remaining 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 USD \$2.2 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 4th, Dream Industrial released Q1 results. Diluted FFO per unit for the quarter came in at \$0.16 USD, up 10% from the year-ago quarter in constant currency. The Trust collected over 99% of recurring contractual gross rent in the first quarter, which is basically pre-pandemic levels. Additionally, the Trust has received roughly 95% of the \$2.3 million contractual gross rent deferred in Q2 2020.

So far in 2021, the Trust has completed over USD \$290 million of acquisitions. These include income-producing assets and a 30-acre parcel of land in the Greater Toronto Area. There are also \$128 million of acquisitions which are firm, under contract, or in exclusivity in the target markets in Canada, U.S., Germany, and the Netherlands.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/S	N/A	N/A	\$0.87	\$0.84	\$0.70	\$0.68	\$0.73	\$0.63	\$0.60	\$0.56	\$0.65	\$0.72
DPS	N/A	N/A	\$0.66	\$0.60	\$0.51	\$0.52	\$0.56	\$0.51	\$0.54	\$0.55	\$0.58	\$0.61
Shares¹	N/A	N/A	54.9	58.0	58.6	59.6	75.1	92.1	112.9	153.0	188.0	220.0

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 REIT has thus far struggled to grow FFO per share because it has issued many new shares to grow the size and scale of the REIT. However, to achieve growth on a per-share basis over the foreseeable future, Dream Industrial plans to accelerate capital recycling in acquiring and developing 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 \$0.70 CAD per share annually 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 2026 the trust will raise its dividends along with its future growth to roughly \$0.72 USD. Given that e-commerce had seen a surge in demand from

¹ In millions

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the social distancing practices being enforced during the coronavirus pandemic, the trust's growth trajectory was largely unimpacted by the event.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	N/A	N/A	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	18.2	12.5
Avg. Yld.	N/A	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	4.9%	6.8%

Dream Industrial's historical average price to funds from operations ratio (P/FFO) is 11. Comparing the current P/FFO ratio to its historic average, Dream Industrial is trading at a significant premium. With the effects of the pandemic having increased the demand for industrial buildings in general, we are rating a fair value estimate of 12.5 times FFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	N/A	N/A	75%	72%	72%	76%	76%	81%	90%	99%	89%	85%

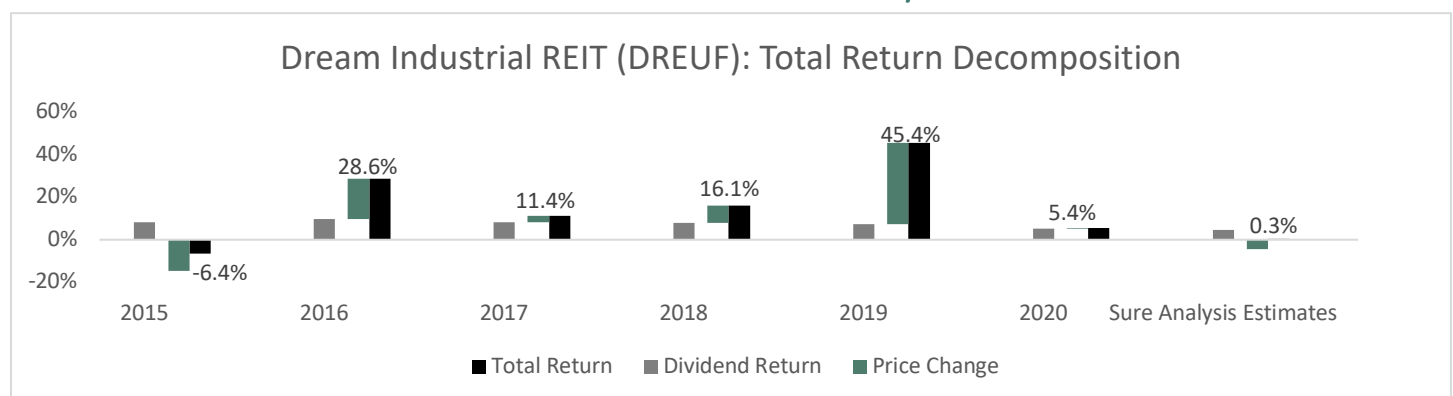
Dream Industrial has a focus on sustainability. The trust believes sustainability not only benefits the environment, but also tenants, stakeholders, and the communities in which the trust operates. Dream Industrial's sustainability strategy guides how the trust runs its business and how it manages environmental and social obligations. The trust believes building and maintaining high-quality buildings 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. 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 0.3% annually, mainly driven by DREUF's 4.9% dividend yield as well as modest growth heavily offset by meaningful multiple compression. As a result, we rate Dream Industrial REIT as a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue			17	143	166	177	175	172	194	236
Gross Profit			13	99	113	119	117	117	134	169
Gross Margin			72.9%	69.2%	67.8%	67.5%	67.2%	67.8%	69.1%	71.6%
SG&A Exp.			1	7	8	9	10	7	9	20
D&A Exp.				2	2	0	1	2	3	0
Operating Profit			12	92	104	110	107	108	123	149
Operating Margin			67.9%	64.0%	62.8%	62.4%	61.5%	62.5%	63.5%	63.1%
Net Profit			-21	84	68	35	-3	35	158	200
Net Margin			-121.3%	58.8%	40.9%	19.9%	-1.5%	20.1%	81.4%	84.8%
Free Cash Flow			6	50	47	50	40	52	64	128
Income Tax				1	1	0	-1	0	1	9

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			1193	1590	1743	1721	1658	1808	2161	3521
Cash & Equivalents			2	0	0	1	7	55	5	255
Accounts Receivable			1	2	2	5	1	1	1	4
Goodwill & Int. Ass.				35	35					
Total Liabilities			866	1019	1114	1094	1067	1096	1171	1616
Accounts Payable			2	5	3	1	1	14	21	34
Long-Term Debt			656	840	921	923	868	890	938	1259
Shareholder's Equity			326	571	629	627	591	712	989	1905
D/E Ratio			2.01	1.47	1.47	1.47	1.47	1.25	0.95	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				6.0%	4.1%	2.0%	-0.2%	2.0%	7.9%	6.2%
Return on Equity				18.7%	11.3%	5.6%	-0.4%	5.3%	18.5%	11.6%
ROIC				7.0%	4.6%	2.3%	-0.2%	2.3%	8.9%	7.0%
Shares Out.			54.9	58.0	58.6	59.6	75.1	92.1	112.9	169.6
Revenue/Share			0.47	2.60	2.86	3.02	2.94	1.89	1.80	1.39
FCF/Share			0.18	0.90	0.81	0.85	0.67	0.57	0.59	0.75

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

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