



Industrial Logistics Properties Trust (ILPT)

Updated February 17th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$22.46	5 Year CAGR Estimate:	8.9%	Market Cap:	\$1.46 B
Fair Value Price:	\$23.63	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/23/2022 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	05/20/2022
Dividend Yield:	5.9%	5 Year Price Target	\$27	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Industrial Logistics Properties Trust is a real estate investment trust that owns and leases industrial and logistics properties throughout the United States. The company's portfolio comprises 288 wholly-owned properties containing approximately 34 million rentable square feet. Specifically, 226 of its properties are located on the island of Oahu, Hawaii and the other 68 properties are located in 32 other states on the mainland. Therefore, around half of the company's annual revenues, which amount to around \$250 million, are sourced from the state of Hawaii. The company is externally managed by RMR LLC and has, therefore, 0 employees. It is headquartered in Newton, Massachusetts.

On February 15th, 2022, Industrial Logistics Properties Trust reported its Q4-2021 results for the period ending December 31st, 2021. Rental income came in at \$56.5 million, 5.8% lower versus the prior-year period. The decline was due to the company selling a 39% equity interest in its joint venture during the year's first half. FFO was \$31.7 million, 5.0% higher year-over-year, while FFO/share grew by 4.3% to \$0.48 due to minor share issuances.

The company's quarterly results continued to illustrate the high demand for logistics properties, which has been driven by the pandemic's boost on e-commerce sales and the ongoing supply chain crisis. With a solid leasing momentum, occupancy stood at 99.2% at the end of Q4, while its properties featured a weighted average remaining lease term of 10.2 years. Last quarter, this figure stood at 8.2 years. This further illustrates tenants' desire to secure long-term leases on their logistics properties.

Financial guidance was not provided. Based on the company's lease profile and recent accretive acquisitions, we forecast FY2022 FFO/share of \$1.89.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/shr	---	---	---	---	---	\$2.39	\$1.61	\$1.76	\$1.86	\$1.87	\$1.89	\$2.19
DPS	---	---	---	---	---	---	\$0.93	\$1.32	\$1.32	\$1.32	\$1.32	\$1.46
Shares²	---	---	---	---	---	45.0	64.1	65.0	65.1	65.2	65.2	75.0

Industrial Logistics Properties was founded in 2017. Therefore, its track record is somewhat limited. Over the past few years, the company has grown its FFO/share, though not very rapidly. The current growth catalysts include higher average rental rates per square foot leased over time (\$6.84 in 2021 vs. \$6.06 in 2020) and acquisitions. That being said, while the company extended weighted average lease rate may provide fantastic cash flow visibility, it also prevents the company from renegotiating its terms for a long time. Hence, higher square-foot rates are to apply only on its short-term leases as annual rental escalations are mostly absent. Overall, we expect FFO/share growth of 3% in the medium term. This figure could be a bit conservative, though we remain skeptical about how effective the company will be in growing its financials over time. The dividend has remained stable since 2019, with no apparent plans for a raise. We expect a DPS CAGR of 2% in the medium term, though this is subject to the company's FFO/share growth ahead.

¹ Estimated dividend dates, based on past dividend dates.

² Share count is 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	---	---	---	---	---	---	14.0	12.1	10.6	13.3	11.9	12.5
Avg. Yld.	---	---	---	---	---	---	4.1%	6.2%	6.7%	5.2%	5.9%	5.3%

Due to Industrial Logistics Properties' limited growth expectations, the stock's valuation multiple hovers below that of most REITs. It currently stands just under 12. However, due to the company's robust cash flow visibility, we believe that a P/FFO of around 12.5 better reflects its overall prospects. The yield currently stands at around 5.9%, one of the largest amongst its peers.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	58%	75%	71%	71%	70%	67%

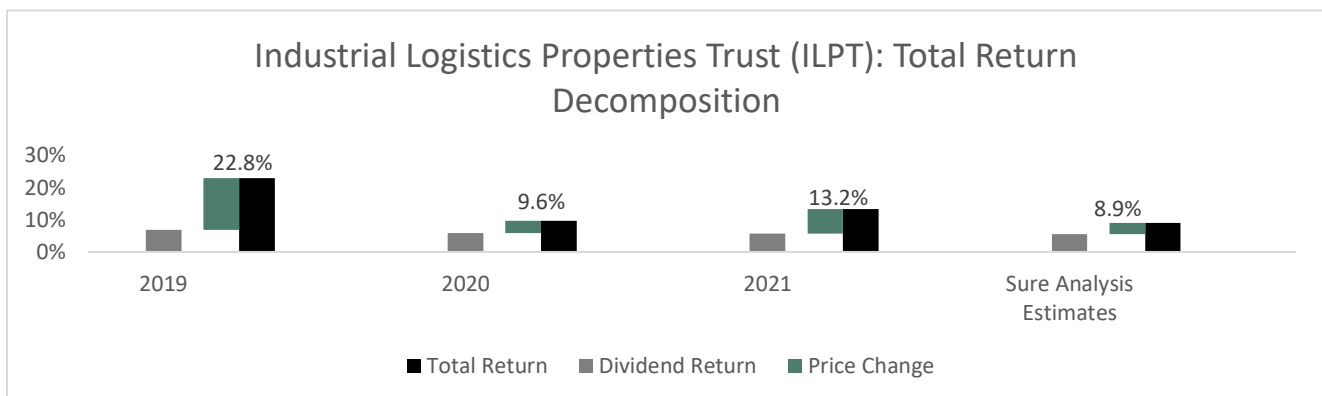
While DPS growth may be underwhelming, the 5.9% yield should be considered rather safe, as the company's underlying FFO generation adequately covers it. Industrial Logistics Properties features some fantastic qualities but some limitations as well. On the bright side, the company should enjoy robust cash flows for nearly a decade ahead due to its contractually secured rental income and sky-high occupancy levels. Further, more than 70% of its annualized rental revenues are derived from investment-grade tenants. Amazon, FedEx, and Restoration Hardware account for 7.7%, 4.8%, and 3.0% of the total annualized rental revenues. Additionally, the company's strong presence in Hawaii definitely poses a competitive advantage in the region.

However, it could also signify a lack of diversification, with more than half its total rental income coming from the island-state. Another drawback could be that the external management may be less effective in shareholder value maximization vs. having employees with vested interests looking for further lucrative opportunities. Finally, the company has not been tested under a prolonged recession though its contracts should shield it well under a future one, as was proven during the pandemic.

Final Thoughts & Recommendation

Industrial Logistics Properties is a relatively new REIT in the market, though it has quickly accumulated very attractive characteristics. However, despite the REIT's above-average, well-covered yield, we don't expect market-beating total returns ahead. We forecast annualized returns of around 8.9% in the medium-term, powered by the 5.9% yield, 3% FFO growth, and potential valuation tailwinds. Shares earn a hold rating as a result.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue					148	153	157	163	229	255
Gross Profit					132	136	139	143	199	219
Gross Margin					89.0%	88.8%	88.6%	88.1%	86.8%	86.2%
SG&A Exp.					9	9	17	11	17	20
D&A Exp.					24	26	26	27	60	68
Operating Profit					89	89	84	90	102	109
Operating Margin					60.2%	58.2%	53.4%	55.6%	44.5%	42.6%
Net Profit					72	87	80	74	52	82
Net Margin					48.4%	56.7%	51.2%	45.8%	22.9%	32.2%
Free Cash Flow					87	109	103	97	116	115
Income Tax					0	0	0	0	0	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets					1,443	1,422	1,412	1,535	2,455	1,916
Cash & Equivalents							-	10	28	23
Accounts Receivable					41	47	52	57	63	70
Total Liabilities					109	109	849	506	1,459	913
Accounts Payable					10	10	11	12	16	15
Long-Term Debt					65	64	799	462	1,407	867
Shareholder's Equity					1,334	1,313	562	1,028	996	1,003
LTD/E Ratio					0.05	0.05	1.42	0.45	1.41	0.86

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						6.1%	5.7%	5.0%	2.6%	3.8%
Return on Equity						6.6%	8.5%	9.4%	5.2%	8.2%
ROIC						6.3%	5.8%	5.2%	2.7%	3.8%
Shares Out.							45.0	64.1	65.0	65.1
Revenue/Share					2.28	2.36	2.41	2.53	3.52	3.91
FCF/Share					1.35	1.68	1.59	1.51	1.79	1.76

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

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