



Industrial Logistics Properties Trust (ILPT)

Updated May 12th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$14.65	5 Year CAGR Estimate:	9.6%	Market Cap:	\$954 M
Fair Value Price:	\$15.00	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	07/23/2022 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	08/19/2022
Dividend Yield:	9.0%	5 Year Price Target	\$16.56	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

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. After the acquisition of Monmouth Real Estate Investment (NYSE:MNR), the company's total portfolio comprises 427 properties. Specifically, 226 of its properties are located on the island of Oahu, Hawaii, and the other 179 properties are located in 38 other states on the mainland. Therefore, around 37.4% of the company's annualized revenues 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 April 26th, 2022, Industrial Logistics Properties Trust reported its Q1-2022 results for the period ending March 31st, 2022. Rental income came in at \$71.8 million, 32.4% higher versus the prior-year period. The increase was due to a larger property portfolio following the acquisition of the previously publicly-listed Monmouth Real Estate. FFO was \$27.6 million, 9.8% lower year-over-year, while FFO/share declined by five cents to \$0.42. The decline was attributable to the company taking on additional operating and interest expenses following the recent acquisition that weren't absorbed by the higher rental income. That said, 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 99.3% at the end of Q1, ten basis points higher sequentially. The company's properties also featured a weighted average remaining lease term of around eight years at the end of the quarter. This further illustrates tenants' desire to secure long-term leases on their logistics properties.

Financial guidance was not provided. However, based on the company's lease profile and, in our view, a damaging recent acquisition, we lower our FY2022 FFO/share estimate from \$1.89 to \$1.50.

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	\$1.50	\$1.66
DPS	---	---	---	---	---	---	\$0.93	\$1.32	\$1.32	\$1.32	\$1.32	\$1.32
Shares²	---	---	---	---	---	45.0	64.1	65.0	65.1	65.2	394.5	400.0

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 2% 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. With the acquisition of Monmouth Real Estate pressuring the bottom line, we don't expect dividend 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	9.8	10.0
Avg. Yld.	---	---	---	---	---	---	4.1%	6.2%	6.7%	5.2%	9.0%	8.0%

Due to Industrial Logistics Properties' limited growth expectations, the stock's valuation multiple hovers below that of most REITs. In addition, the company experienced a substantial valuation compression in early 2022 as the acquisition of Monmouth Real Estate may not end up being as accretive to the bottom line as previously thought, as illustrated in the company's Q1 results. Additionally, the company heavily indebted itself for this acquisition, with its long-term debt/equity and EBITDA/long-term debt deteriorating from 79.8% and 5.1x to 273.6% and 21.2x, respectively. With a weakened balance sheet and questionable benefits coming out of the acquisition, the stock is currently trading at a P/FFO under 10. With the market likely to remain unforgiving in the medium-term in regards to the recent misstep of an acquisition, we don't expect a valuation expansion. The yield currently stands at 9.0%, one of the largest amongst REITs.

Safety, Quality, Competitive Advantage, & Recession Resiliency

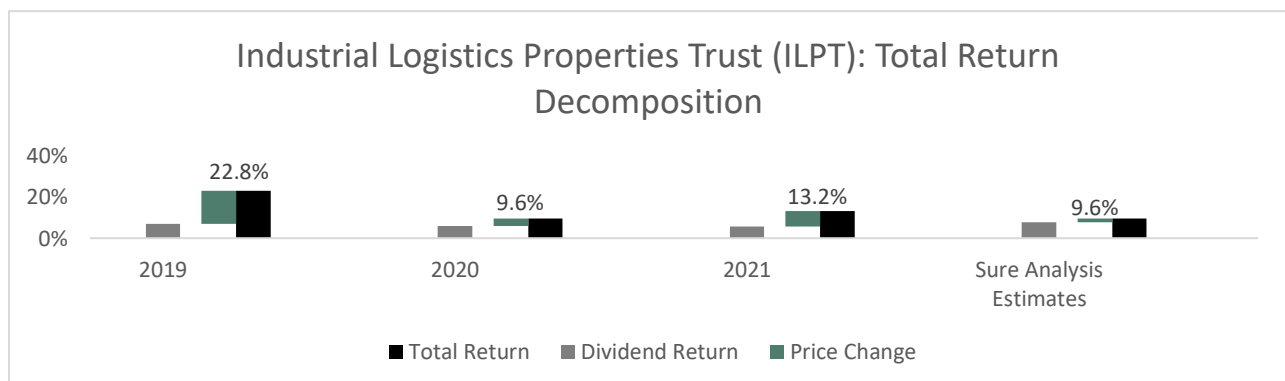
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	58%	75%	71%	71%	88%	80%

While dividend growth prospects may be underwhelming, ILPT's 9.0% yield appears covered for now. Despite the recent misstep, the company features some noteworthy qualities. ILPT should keep enjoying 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. FedEx, Amazon, and Home Depot account for 29.6%, 7.0%, and 1.8% of the total annualized rental revenues. Additionally, the company's strong presence in Hawaii definitely poses a competitive advantage in the region. However, flaws do exist. The external management may be less effective in shareholder value maximization versus 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. Still, the market remains skeptical regarding the recent acquisition of Monmouth Real Estate, which could be damaging to shareholder's equity. We now forecast annualized returns of around 9.6% in the medium-term, primarily powered by the 9% yield and slight growth prospects ahead. Shares of ILPT earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue				148	153	157	163	229	255	220
Gross Profit				132	136	139	143	199	219	190
Gross Margin				89.0%	88.8%	88.6%	88.1%	86.8%	86.2%	86.4%
SG&A Exp.				9	9	17	11	17	20	17
D&A Exp.				24	26	26	27	60	68	49
Operating Profit				89	89	84	90	102	109	104
Operating Margin				60.2%	58.2%	53.4%	55.6%	44.5%	42.6%	47.3%
Net Profit				72	87	80	74	52	82	120
Net Margin				48.4%	56.7%	51.2%	45.8%	22.9%	32.2%	54.5%
Free Cash Flow				87	109	103	97	116	115	111
Income Tax				0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets				1,443	1,422	1,412	1,535	2,455	1,916	1,909
Cash & Equivalents						-	10	28	23	29
Accounts Receivable				41	47	52	57	63	70	76
Total Liabilities				109	109	849	506	1,459	913	871
Accounts Payable				10	10	11	12	16	15	16
Long-Term Debt				65	64	799	462	1,407	867	828
Shareholder's Equity				1,334	1,313	562	1,028	996	1,003	1,038
LTD/E Ratio				0.05	0.05	1.42	0.45	1.41	0.86	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets					6.1%	5.7%	5.0%	2.6%	3.8%	6.3%
Return on Equity					6.6%	8.5%	9.4%	5.2%	8.2%	11.7%
ROIC					6.3%	5.8%	5.2%	2.7%	3.8%	6.4%
Shares Out.						45.0	64.1	65.0	65.1	65.2
Revenue/Share				2.28	2.36	2.41	2.53	3.52	3.91	3.37
FCF/Share				1.35	1.68	1.59	1.51	1.79	1.76	1.70

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

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