Dream Industrial REIT (DREUF)

Updated August 9th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$10	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$2.6 B
Fair Value Price:	$10	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	08/30/22
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	09/15/22
Dividend Yield:	5.4%	**5 Year Price Target**	$11	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 372 geographically diversified light industrial properties, which makes up 46.0 million square feet of gross leasable area across predominantly Canada, with some operation in the United States and Europe. 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 $2.6 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 August 2nd, Dream Industrial reported second quarter 2022 results for the period ending June 30th, 2022. Diluted FFO per unit for the quarter came in at C$0.22, up 13% from the year-ago quarter. Net asset value (NAV) per unit was C$16.64, up 22% compared to Q2 2021. Net rental income rose 35% to C$68.7 million in Q2 compared to C$51.1 million in the previous year.

In Q2 2022, the trust completed C$368 million of acquisitions. These include income-producing assets in Canada and Europe and 19.5 acres of development land in the Balzac sub-market of Calgary.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	N/A	$0.87	$0.84	$0.70	$0.68	$0.73	$0.63	$0.60	$0.56	$0.64	***$0.71***	***$0.84***
DPS	N/A	$0.66	$0.60	$0.51	$0.52	$0.56	$0.51	$0.54	$0.55	$0.56	***$0.55***	***$0.58***
Shares[1]	N/A	54.9	58.0	58.6	59.6	75.1	92.1	112.9	153.0	252.0	***260.0***	***300.0***

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. The company has also begun investing more heavily in Europe.

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 company 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 2027 the trust will raise its dividends along with its future growth to roughly $0.58USD. Given that e-commerce had seen a surge in demand from the social distancing practices being enforced during the coronavirus pandemic, the trust's growth trajectory was largely unimpacted by the event.

[1] In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	N/A	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	18.8	***14.2***	***13.5***
Avg. Yld.	N/A	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	4.6%	***5.4%***	***5.1%***

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 13.5 times FFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	2027
Payout	N/A	75%	72%	72%	76%	76%	81%	90%	99%	88%	***77%***	***69%***

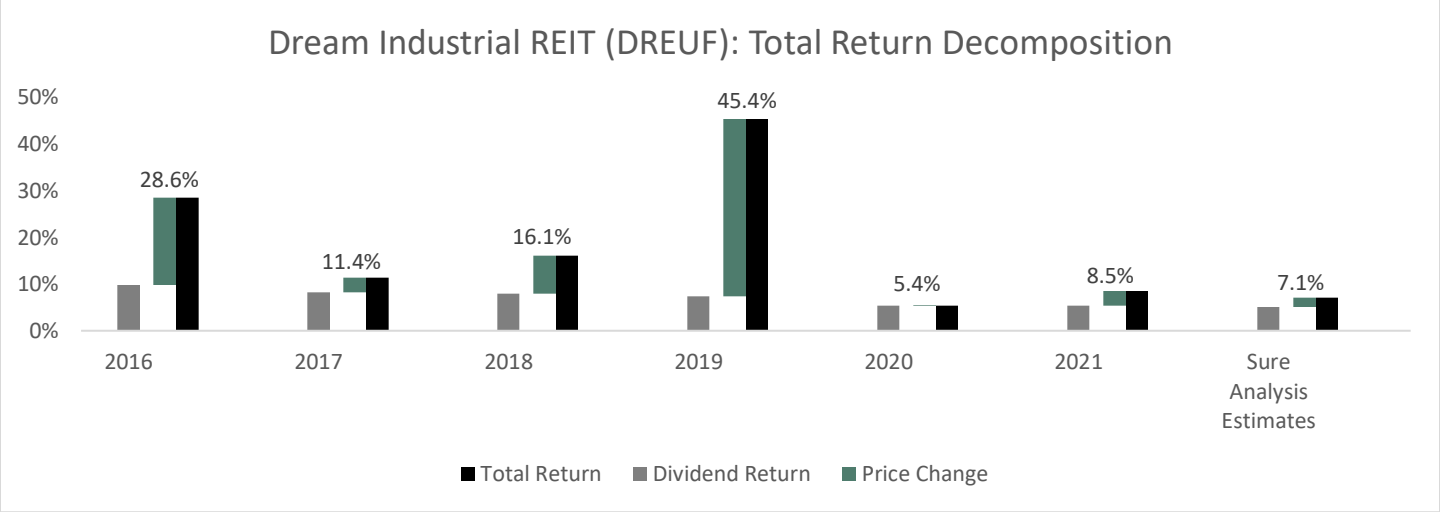
Dream Industrial has a focus on sustainability. The trust believes sustainability not only benefits the environment, but also tenants, stakeholders, and the communities in which the trust operates. Dream Industrial's sustainability strategy guides how the trust runs its business and how it manages environmental 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 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. 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 7.1% annually, mainly driven by DREUF's 5.4% dividend yield as well as modest growth offset by some 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue		139	151	139	132	133	124	147	176	231
Gross Profit		96	102	94	89	90	88	105	126	174
Gross Margin		69.2%	67.8%	67.5%	67.2%	67.8%	71.2%	71.2%	71.6%	75.2%
SG&A Exp.		9	11	10	11	9	10	11	15	21
D&A Exp.		0	0	0	0	0	0	0	1	1
Operating Profit		87	91	83	78	81	78	94	111	153
Operating Margin		62.4%	60.5%	60.2%	59.2%	60.7%	63.2%	63.8%	63.1%	66.0%
Net Profit		82	62	28	-2	27	122	135	149	485
Net Margin		58.8%	40.9%	19.9%	-1.5%	20.1%	98.2%	91.9%	84.8%	209.9%
Free Cash Flow		48	43	39	30	40	49	82	95	102
Income Tax		1	1	0	0	0	1	6	6	24

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,199	1,493	1,501	1,240	1,230	1,438	1,586	2,215	2,761	4,748
Cash & Equivalents	2	0	0	1	5	43	4	338	200	129
Accounts Receivable	1	2	2	1	1	1	1	2	3	1
Goodwill & Int. Ass.	36	33	30							
Total Liabilities	871	957	960	788	791	871	860	1,021	1,268	2,003
Accounts Payable	2	5	3	0	1	11	16	20	26	57
Long-Term Debt		789	794	665	644	708	688	777	987	1,604
Shareholder's Equity	328	536	542	452	438	566	726	1,194	1,494	2,745
LTD/E Ratio		1.47	1.47	1.47	1.47	1.25	0.95	0.65	0.66	0.58

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			4.1%	2.0%	-0.2%	2.0%	8.0%	7.1%	6.0%	12.9%
Return on Equity		18.9%	11.4%	5.6%	-0.5%	5.3%	18.8%	14.1%	11.1%	22.9%
ROIC			4.6%	2.2%	-0.2%	2.3%	9.0%	8.0%	6.7%	14.2%
Shares Out.		54.9	58.0	58.6	59.6	75.1	92.1	112.9	153.0	252.0
Revenue/Share		2.53	2.59	1.59	2.22	1.46	1.18	1.10	1.04	1.07
FCF/Share		0.88	0.73	0.45	0.51	0.44	0.47	0.61	0.56	0.47

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

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