



Industrial Logistics Properties Trust (ILPT)

Updated October 26th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$5.03	5 Year CAGR Estimate:	14.8%	Market Cap:	\$329.1 M
Fair Value Price:	\$7.80	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	10/21/2022
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	11/17/2022
Dividend Yield:	0.8%	5 Year Price Target	\$8.61	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Buy

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 412 properties. Specifically, 226 of its properties are located on the island of Oahu, Hawaii, and the other 186 properties are located in 38 other states on the mainland. Therefore, around 29% 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.

Industrial Logistics Properties Trust has essentially suspended its dividend, reducing it to a quarterly rate of \$0.01. This was to enhance its liquidity until it completes its long-term financing plan for the Monmouth acquisition. In Q2, the company initially anticipated that its dividend would return to a rate at, or close to, its historical level sometime in 2023. In Q3, management traded the time frame to "as soon as possible", increasing uncertainty over future payouts.

On October 25th, 2022, Industrial Logistics Properties Trust reported its Q3-2022 results for the period ending September 30th, 2022. Rental income came in at \$103.2 million, 88% higher than 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 \$14.9 million, 50.9% lower year-over-year, while FFO/share declined by 50% to \$0.23. 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.

During the quarter, the company completed a \$1.2 billion debt financing with a final maturity date of October 9th, 2027. It fully repaid the \$1.4 billion in aggregate principal outstanding under its bridge loan facility. It is now utilizing its robust medium-term cash flows, backed by an occupancy rate of 98.9% and a weighted average remaining lease term of approximately 6.2 years to soldier on the restructuring and basically operate to service its debt. Financial guidance was not provided. We now expect FY2022 FFO/share of \$1.30 based on ILPT's lease profile.

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	\$1.30	\$1.44
DPS	---	---	---	---	---	---	\$0.93	\$1.32	\$1.32	\$1.32	\$0.04	\$0.66
Shares¹	---	---	---	---	---	45.0	64.1	65.0	65.1	65.2	65.2	67.0

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% going forward.

¹ Share count is in millions.

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In our past reports, we had warned that the Monmouth acquisition would be damaging to the company's financials, and the recent dividend cut proved this. We have now employed a very aggressive dividend growth pace through 2027, to reflect management's comments regarding restoring the dividend once its financial obligations are serviced.

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	3.9	6.0
Avg. Yld.	---	---	---	---	---	---	4.1%	6.2%	6.7%	5.2%	0.8%	7.6%

Due to Industrial Logistics Properties' limited growth expectations, its historical valuation would hover in the low teens prior to last year. However, following a reckless acquisition which further resulted in the recent dividend cut, shares experienced a massive valuation compression year-to-date. Not only did the acquisition of Monmouth Real Estate not end up being as accretive to the bottom line as previously thought, as illustrated in the company's Q3 results, but the company also heavily indebted itself for this acquisition. In fact, its long-term debt/equity and total debt/EBITDA deteriorated from 79.8% and 5.1x to 311.7% and 17.3x, respectively. Following a weakened balance sheet and uncertainty over when and by how much the dividend will be restored, the stock is currently trading at a depressed P/FFO of 3.9. While the market is likely to remain unforgiving of this misstep for a while, we eventually believe that the P/FFO will expand to around 6 once the dividend is resumed, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

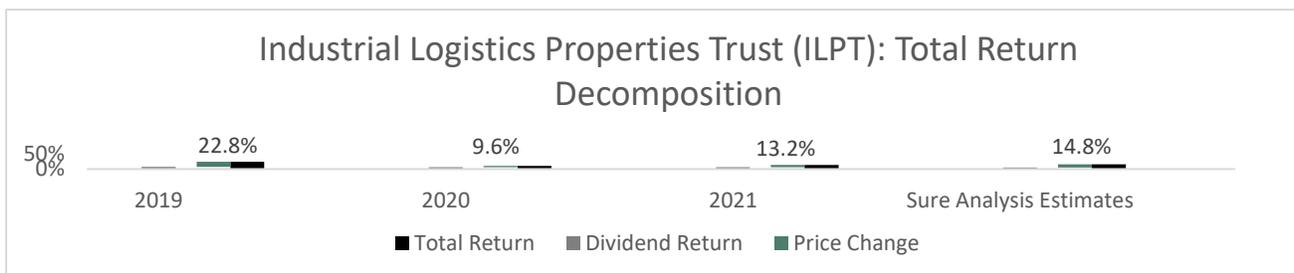
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	58%	75%	71%	71%	3%	46%

Despite the recent misstep, the company features some noteworthy qualities. ILPT should keep enjoying robust cash flows for decades to come due to its contractually secured rental income and sky-high occupancy levels. Further, more than 78% of its annualized rental revenues are derived from investment-grade tenants. FedEx, Amazon, and Home Depot account for 29.2%, 6.8%, and 4.4% of the total rentable square feet. 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

Following ILPT's recent disastrous acquisition, shareholder value has been destroyed. The company is going to operate just to service its debt for at least another year. We now forecast annualized returns of around 14.8% in the medium-term, primarily powered by the possibility of a gradual valuation expansion assuming the dividend is restored once significant deleveraging has occurred. Shares of ILPT earn a highly speculative buy 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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