



Dream Industrial REIT (DREUF)

Updated February 17th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	5.6%	Market Cap:	\$3.0 B
Fair Value Price:	\$9.7	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/28/22
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	11/15/22
Dividend Yield:	4.7%	5 Year Price Target	\$12	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 257 industrial assets, which makes up 47.3 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 \$3.0 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 November 7th, 2022, Dream Industrial announced it created a joint venture in partnership with GIC, a sovereign wealth fund, which will acquire Summit Industrial Income REIT for C\$5.9 billion in all-cash. The JV will be 10% owned by Dream and 90% owned by GIC. Dream's investment will equal about C\$470 million through cash and debt, and does not plan to issue equity for the transaction.

On February 14th, 2023, Dream Industrial reported fourth quarter and full year 2022 results for the period ending December 31st, 2022. Diluted FFO per unit for the full year came in at C\$0.89, up 9.0% from 2021. Net asset value (NAV) per unit was C\$16.97, up 12.2% compared to 2021. Net rental income rose 29% to C\$282 million for 2022.

During 2022, Dream Industrial acquired roughly \$565 million worth of income producing assets, adding over 2.6 million square feet to its portfolios in Canada and Europe.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	\$0.87	\$0.84	\$0.70	\$0.68	\$0.73	\$0.63	\$0.60	\$0.56	\$0.64	\$0.66	\$0.72	\$0.88
DPS	\$0.66	\$0.60	\$0.51	\$0.52	\$0.56	\$0.51	\$0.54	\$0.55	\$0.56	\$0.54	\$0.52	\$0.55
Shares¹	55	58	59	60	75	92	113	153	252	257	260	300

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 per share 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 over the long-term. We expect by the year 2028 the trust will be paying a dividend per share of roughly \$0.55USD. 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. The JV created with GIC to acquire Summit Industrial REIT appears to be transformative for the trust, and will be immediately accretive while also improving the growth profile of Dream Industrial. We expect the trust to grow FFO per share by roughly 4.0% from here on out.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
P/FFO	9.7	9	7.6	9.5	9.7	11.1	11.8	12.7	18.8	15.7	15.4	13.5
Avg. Yld.	7.9%	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	4.6%	5.2%	4.7%	4.6%

Dream Industrial's ten-year average price-to-funds from operations ratio (P/FFO) is 11.6, but this has increased materially to 14.0 over the trailing five years. Comparing the current P/FFO ratio to its historic average, Dream Industrial is trading at a 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	72%	72%	76%	76%	81%	90%	99%	88%	82%	72%	62%

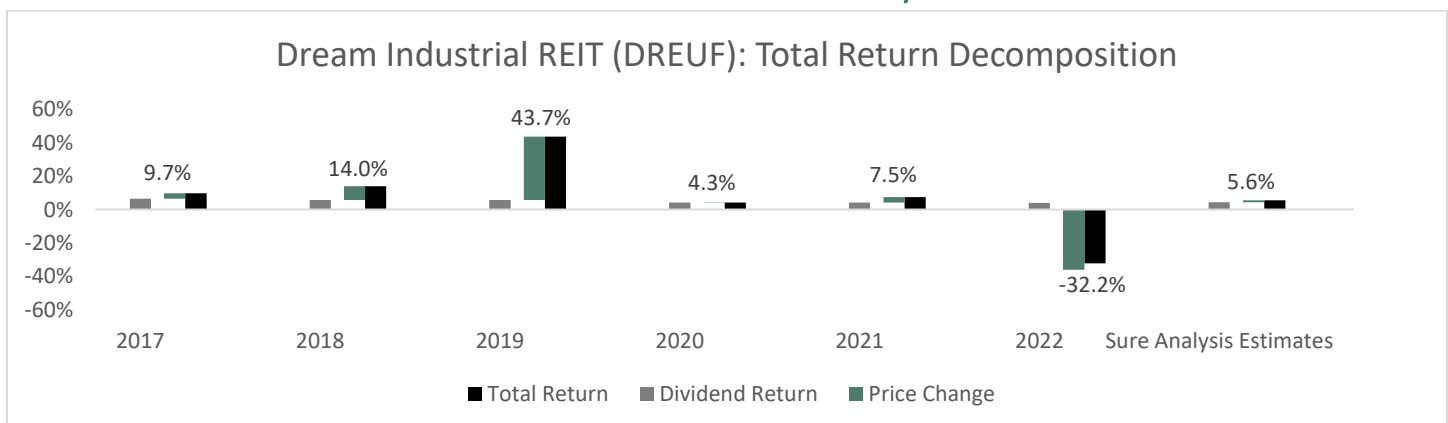
The trust believes building and maintaining high-quality buildings allows it to protect its asset value and sustain high occupancy rates. One key initiative which Dream Industrial has is a focus on is energy efficiency. The trust achieves this through lighting retrofit projects and utilizing renewable 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 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 5.6% annually, mainly driven by DREUF's 4.7% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	139	151	139	132	133	124	147	176	231	284
Gross Profit	96	102	94	89	90	88	105	126	174	216
Gross Margin	69.2%	67.8%	67.5%	67.2%	67.8%	71.2%	71.2%	71.6%	75.2%	76.2%
SG&A Exp.	9	11	10	11	9	10	11	15	21	26
D&A Exp.	0	0	0	0	0	0	0	1	1	2
Operating Profit	87	91	83	78	81	78	94	111	153	190
Operating Margin	62.4%	60.5%	60.2%	59.2%	60.7%	63.2%	63.8%	63.1%	66.0%	66.9%
Net Profit	82	62	28	-2	27	122	135	149	485	543
Net Margin	58.8%	40.9%	19.9%	-1.5%	20.1%	98.2%	91.9%	84.8%	209.9%	191.0%
Free Cash Flow	48	43	39	30	40	49	82	95	102	54
Income Tax	1	1	0	0	0	1	6	6	24	15

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,493	1,501	1,240	1,230	1,438	1,586	2,215	2,761	4,748	5,364
Cash & Equivalents	0	0	1	5	43	4	338	200	129	62
Accounts Receivable	2	2	1	1	1	1	2	3	1	6
Goodwill & Int. Ass.	33	30								
Total Liabilities	957	960	788	791	871	860	1,021	1,268	2,003	2,084
Accounts Payable	5	3	0	1	11	16	20	26	57	43
Long-Term Debt	789	794	665	644	708	688	777	987	1,604	1,778
Shareholder's Equity	536	542	452	438	566	726	1,194	1,494	2,745	3,281
LTD/E Ratio	1.47	1.47	1.47	1.47	1.25	0.95	0.65	0.66	0.58	0.54

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		4.1%	2.0%	-0.2%	2.0%	8.0%	7.1%	6.0%	12.9%	10.7%
Return on Equity	18.9%	11.4%	5.6%	-0.5%	5.3%	18.8%	14.1%	11.1%	22.9%	18.0%
ROIC		4.6%	2.2%	-0.2%	2.3%	9.0%	8.0%	6.7%	14.2%	11.5%
Shares Out.	54.9	58.0	58.6	59.6	75.1	92.1	112.9	153.0	252.0	270.7
Revenue/Share	2.53	2.59	1.59	2.22	1.46	1.18	1.10	1.04	1.07	1.05
FCF/Share	0.88	0.73	0.45	0.51	0.44	0.47	0.61	0.56	0.47	0.20

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

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