



Industrial Logistics Properties Trust (ILPT)

Updated April 26th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$2.22	5 Year CAGR Estimate:	16.3%	Market Cap:	\$151.6 M
Fair Value Price:	\$2.94	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/21/2023
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.8%	Dividend Payment Date:	05/18/2023
Dividend Yield:	1.8%	5 Year Price Target	\$3.93	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 413 properties. Specifically, 226 of its properties are located on the island of Oahu, Hawaii, and the other 187 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 Q2-2020, 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 April 25th, 2023, Industrial Logistics Properties Trust reported its Q1-2023 results for the period ending March 31st, 2023. For the quarter, rental income came in at \$110.3 million, 40.5% 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 \$7.9 million, 2.5% lower year-over-year, while FFO/share remained stable at 0.12.

Last year, 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 98.7% and a weighted average remaining lease term of approximately 8.4 years, to continue the restructuring and basically operate to service its debt. Financial guidance was not provided. We continue to expect FY2023 FFO/share of \$0.42 based on ILPT's lease profile.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/shr	---	---	---	---	\$2.39	\$1.61	\$1.76	\$1.86	\$1.87	\$0.02	\$0.42	\$0.56
DPS	---	---	---	---		\$0.93	\$1.32	\$1.32	\$1.32	\$0.68	\$0.04	\$0.30
Shares¹	---	---	---	---	45.0	64.1	65.0	65.1	65.2	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 (\$7.01 in 2022, \$6.84 in 2021, \$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 6% going forward, expecting the company's profitability to gradually recover as it deleverages.

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 last year's results and dividend cut proved this. We have now employed a very aggressive dividend growth pace through 2028, to reflect management's comments regarding restoring the dividend once its financial obligations are serviced.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	---	---	---	---	---	14.0	12.1	10.6	13.3	---	5.3	7.0
Avg. Yld.	---	---	---	---	---	4.1%	6.2%	6.7%	5.2%	6.8%	1.8%	7.7%

Due to Industrial Logistics Properties' limited growth expectations, its historical valuation would hover in the low teens prior to last year. However, following the reckless acquisition of Monmouth, which resulted in a dividend cut, shares are now trading at a depressed P/FFO of 5.3. The heavy discount is justified, as not only did the acquisition of Monmouth not end up being as accretive to the bottom-line as previously thought, but the company also heavily indebted itself for this acquisition. Hence, investors don't really want to hold a stock that operates to service its debt. Still, we believe that after significant deleveraging progress over the medium term, the stock will experience a strong valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

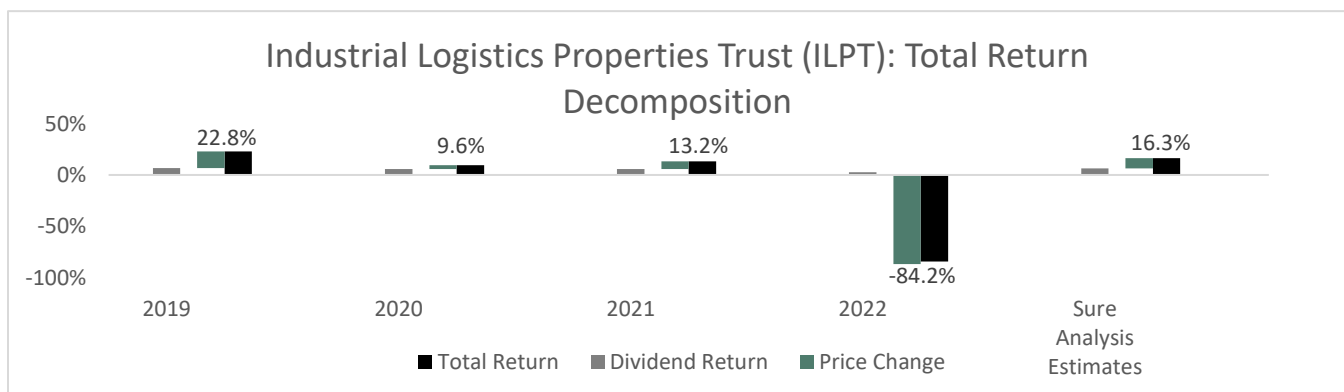
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	58%	75%	71%	71%	---	10%	54%

Despite the recent misstep, the company features some noteworthy qualities. ILPT should keep enjoying robust cash flows for years 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 22.1%, 7.7%, and 1.6% 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 a few years. We now forecast annualized returns of around 16.3% in the medium-term, primarily powered by the possibility of gradually higher FFO/share and dividends as well as a valuation tailwind 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue			148	153	157	163	229	255	220	388
Gross Profit			132	136	139	143	199	219	190	337
Gross Margin			89.0%	88.8%	88.6%	88.1%	86.8%	86.2%	86.4%	86.9%
SG&A Exp.			9	9	17	11	17	20	17	33
D&A Exp.			24	26	26	27	60	68	49	155
Operating Profit			89	89	84	90	102	109	104	113
Operating Margin			60.2%	58.2%	53.4%	55.6%	44.5%	42.6%	47.3%	29.1%
Net Profit			72	87	80	74	52	82	120	(227)
Net Margin			48.4%	56.7%	51.2%	45.8%	22.9%	32.2%	54.5%	(58.5%)
Free Cash Flow			87	109	103	97	116	115	111	83
Income Tax			0	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets			1,443	1,422	1,412	1,535	2,455	1,916	1,909	5,676
Cash & Equivalents					-	10	28	23	29	48
Accounts Receivable			41	47	52	57	63	70	76	107
Total Liabilities			109	109	849	506	1,459	913	871	4,345
Accounts Payable			10	10	11	12	16	15	16	74
Long-Term Debt			65	64	799	462	1,407	867	828	4,245
Shareholder's Equity			1,334	1,313	562	1,028	996	1,003	1,038	791
LTD/E Ratio			0.05	0.05	1.42	0.45	1.41	0.86	0.80	5.37

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets				6.1%	5.7%	5.0%	2.6%	3.8%	6.3%	(6.0%)
Return on Equity				6.6%	8.5%	9.4%	5.2%	8.2%	11.7%	(24.8%)
ROIC				6.3%	5.8%	5.2%	2.7%	3.8%	6.4%	(6.1%)
Shares Out.					45.0	64.1	65.0	65.1	65.2	65.3
Revenue/Share			2.28	2.36	2.41	2.53	3.52	3.91	3.37	5.95
FCF/Share			1.35	1.68	1.59	1.51	1.79	1.76	1.70	1.28

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

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