



# Dream Industrial REIT (DREUF)

Updated February 18<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$10.0	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$2.9 B
<b>Fair Value Price:</b>	\$10.1	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	02/27/24
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Dividend Payment Date:</b>	03/15/24
<b>Dividend Yield:</b>	5.2%	<b>5 Year Price Target</b>	\$12	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Dream Industrial REIT is an industrial REIT that owns high-quality light industrial properties. The trust owns and operates a portfolio of 327 industrial assets, which makes up 71.4 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 \$2.9 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 February 17<sup>th</sup>, 2023, Dream Industrial created its joint venture in partnership with GIC, a sovereign wealth fund, which acquired Summit Industrial Income REIT for C\$5.9 billion in all cash. The JV is 10% owned by Dream and 90% owned by GIC. Dream's investment equaled about C\$473 million.

Alexander Sannikov was appointed President and CEO on January 1, 2024. He joined the REIT in 2019, but has been with the REIT's asset manager, Dream Asset Management Corporation, since 2008. Before CEO, he was COO.

On February 13<sup>th</sup>, 2024, Dream Industrial reported fourth quarter 2023 results for the period ending December 31<sup>st</sup>, 2023. Diluted FFO per unit for 2023 came in at C\$0.98, up 10% from 2022. Net asset value (NAV) per unit was C\$16.61, down 2.1% compared to December 31<sup>st</sup>, 2022. Net rental income rose 19% to C\$334 million for 2023.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO/S</b>	\$0.84	\$0.70	\$0.68	\$0.73	\$0.63	\$0.60	\$0.56	\$0.64	\$0.66	\$0.73	<b>\$0.75</b>	<b>\$0.91</b>
<b>DPS</b>	\$0.60	\$0.51	\$0.52	\$0.56	\$0.51	\$0.54	\$0.55	\$0.56	\$0.54	\$0.52	<b>\$0.52</b>	<b>\$0.55</b>
<b>Shares<sup>1</sup></b>	58	59	60	75	92	113	153	252	275	287	<b>290</b>	<b>350</b>

We use 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 increase the size and scale of the REIT. Additionally, the CAD to USD exchange rate has added to this volatility.

The JV created with GIC to acquire Summit Industrial REIT is transformative for the trust, and was immediately accretive while also improving the growth profile of Dream Industrial. Following the acquisition of Summit Industrial, DREUF's total portfolio grew from 257 assets to 321 assets, encompassing 70.4 million square feet compared to 47.3 million square feet prior. We expect the trust to grow FFO per share by roughly 4.0% from here on out.

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 2029 the trust will be paying a dividend per share of roughly \$0.55USD. Given that e-commerce had seen a surge in demand from

<sup>1</sup> 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.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	9	7.6	9.5	9.7	11.1	11.8	12.7	18.8	15.7	13.9	13.4	13.5
Avg. Yld.	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	4.6%	5.2%	5.2%	5.2%	4.4%

Dream Industrial's ten-year average price-to-funds from operations ratio (P/FFO) is 12.0, but this has increased materially to 14.6 over the trailing five years. Dream Industrial is currently trading in between these two historic valuation averages. With the effects of the pandemic having increased the demand for industrial buildings in general, we peg fair value for DREUF at 13.5 times FFO, implying little change from the valuation from here.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	72%	72%	76%	76%	81%	90%	99%	88%	82%	71%	69%	60%

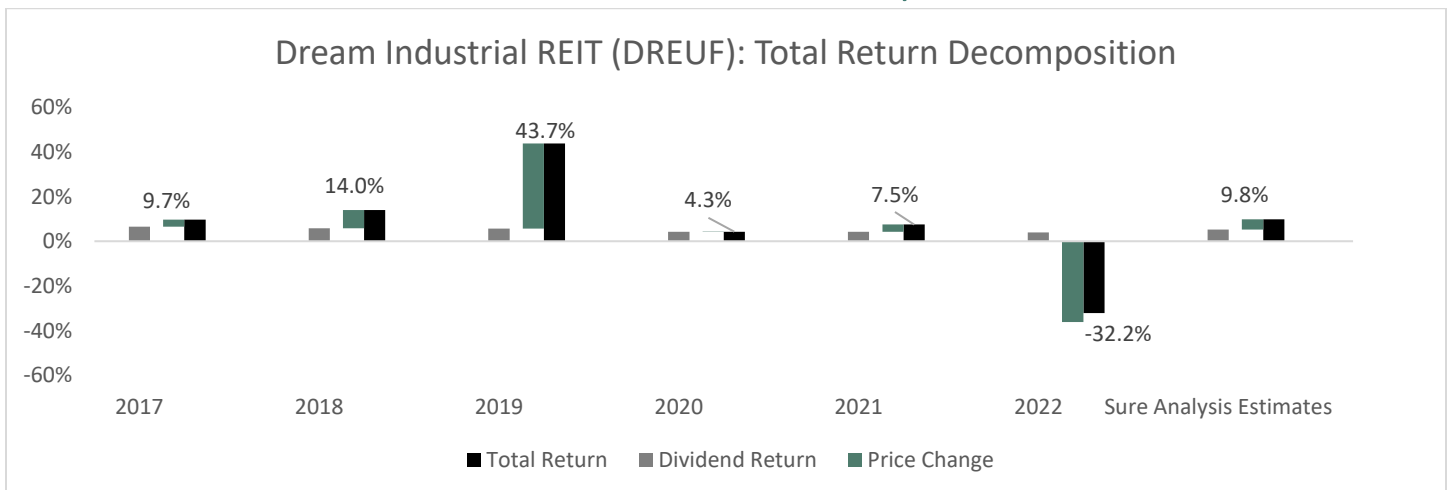
The trust believes building and maintaining high-quality buildings allows it to protect its asset value and sustain high occupancy rates. One key initiative which Dream Industrial has is a focus on energy efficiency. The trust achieves this through lighting retrofit projects and utilizing renewable power 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 8.4% annually, mainly driven by DREUF's 5.2% dividend yield as well as modest growth, and some level of valuation expansion. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	151	139	132	133	124	147	176	231	284	324
Gross Profit	102	94	89	90	88	105	126	174	216	247
Gross Margin	67.8%	67.5%	67.2%	67.8%	71.2%	71.2%	71.6%	75.2%	76.2%	76.2%
SG&A Exp.	11	10	11	9	10	11	15	21	26	27
D&A Exp.	0	0	0	0	0	0	1	1	2	2
Operating Profit	91	83	78	81	78	94	111	153	190	220
Operating Margin	60.5%	60.2%	59.2%	60.7%	63.2%	63.8%	63.1%	66.0%	66.9%	67.9%
Net Profit	62	28	-2	27	122	135	149	485	543	77
Net Margin	40.9%	19.9%	-1.5%	20.1%	98.2%	91.9%	84.8%	209.9%	191.0%	23.8%
Free Cash Flow	43	39	30	40	49	82	95	102	54	86
Income Tax	1	0	0	0	1	6	6	24	15	77

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,501	1,240	1,230	1,438	1,586	2,215	2,761	4,748	5,364	5,924
Cash & Equivalents	0	1	5	43	4	338	200	129	62	38
Accounts Receivable	2	1	1	1	1	2	3	1	6	10
Goodwill & Int. Ass.	30									
Total Liabilities	960	788	791	871	860	1,021	1,268	2,003	2,084	2,475
Accounts Payable	3	0	1	11	16	20	26	57	43	57
Long-Term Debt	794	665	644	708	688	777	987	1,604	1,778	2,146
Shareholder's Equity	542	452	438	566	726	1,194	1,494	2,745	3,281	3,449
LTD/E Ratio	1.47	1.47	1.47	1.25	0.95	0.65	0.66	0.58	0.54	0.62

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	2.0%	-0.2%	2.0%	8.0%	7.1%	6.0%	12.9%	10.7%	1.4%
Return on Equity	11.4%	5.6%	-0.5%	5.3%	18.8%	14.1%	11.1%	22.9%	18.0%	2.3%
ROIC	4.6%	2.2%	-0.2%	2.3%	9.0%	8.0%	6.7%	14.2%	11.5%	1.5%
Shares Out.	58.0	58.6	59.6	75.1	92.1	112.9	153.0	252.0	270.7	286.6
Revenue/Share	2.59	1.59	2.22	1.46	1.18	1.10	1.04	1.07	1.05	1.13
FCF/Share	0.73	0.45	0.51	0.44	0.47	0.61	0.56	0.47	0.20	0.30

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

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