



Industrial Logistics Properties Trust (ILPT)

Updated February 21st, 2024 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|--------|--|--------|----------------------------------|-------------------------|
| Current Price: | \$4.08 | 5 Year CAGR Estimate: | 6.5% | Market Cap: | \$269 M |
| Fair Value Price: | \$3.25 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 04/18/2024 ¹ |
| % Fair Value: | 126% | 5 Year Valuation Multiple Estimate: | -4.4% | Dividend Payment Date: | 05/17/2024 |
| Dividend Yield: | 1.0% | 5 Year Price Target | \$4.78 | Years Of Dividend Growth: | N/A |
| Dividend Risk Score: | C | Retirement Suitability Score: | F | Rating: | Hold |

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. The company's total portfolio now comprises 411 properties. Specifically, 226 of its properties are located on the island of Oahu, Hawaii, and the other 185 properties are located in 38 other states on the mainland. Therefore, around 28% of the company's annualized revenues are sourced from the state of Hawaii. The company is externally managed by RMR LLC and has, thus, 0 employees. It is based 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 Q2-2022, the company initially anticipated that its dividend would return to a rate at, or close to, its historical level sometime in 2023. The dividend has yet to recover, as elevated rates continue to hamper the company's bottom line.

On February 20th, 2024, Industrial Logistics Properties Trust reported its Q4 and full-year results for the period ending December 31st, 2023. For the year, rental income came in at \$108.9 million, 2.4% higher than the prior-year period. The stable result was due to stable operations, with no acquisitions taking place over the past year following the massive acquisition of the previously publicly-listed Monmouth Real Estate.

FFO and FFO/share were \$7.8 million and \$0.12, compared to \$5.4 million and \$0.08 last year. For the year, FFO/share came in at \$0.47, recovering from \$0.02.

In 2022, 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 98.8% and a weighted average remaining lease term of approximately 8.1 years, to continue the restructuring and basically operate to service its debt. Financial guidance was not provided. We now expect FY2024 FFO/share of \$0.50 based on ILPT's lease profile.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|------|------|------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFO/shr | --- | --- | --- | \$2.39 | \$1.61 | \$1.76 | \$1.86 | \$1.87 | \$0.02 | \$0.47 | \$0.50 | \$0.73 |
| DPS | --- | --- | --- | --- | \$0.93 | \$1.32 | \$1.32 | \$1.32 | \$0.68 | \$0.04 | \$0.04 | \$0.30 |
| Shares² | --- | --- | --- | 45.0 | 64.1 | 65.0 | 65.1 | 65.2 | 65.2 | 65.8 | 65.8 | 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 (\$7.39 in 2023, \$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

¹ Estimated dates based on past dividend dates.

² Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Industrial Logistics Properties Trust (ILPT)

Updated February 21st, 2024 by Nikolaos Sismanis

to apply only on its short-term leases as annual rental escalations are mostly absent. Overall, we expect FFO/share growth of 8% going forward, expecting the company's profitability to gradually recover as it deleverages.

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 2029, to reflect management's comments regarding restoring the dividend once its financial obligations are serviced.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/FFO | --- | --- | --- | --- | 14.0 | 12.1 | 10.6 | 13.3 | --- | 8.7 | 8.2 | 6.5 |
| Avg. Yld. | --- | --- | --- | --- | 4.1% | 6.2% | 6.7% | 5.2% | 6.8% | 1.0% | 1.0% | 6.4% |

Due to limited growth expectations and the reckless acquisition of Monmouth, Industrial Logistics Properties' valuation has been compressed significantly. The acquisition didn't prove as beneficial as anticipated, and the company incurred substantial debt. This has led to a justified heavy discount, as investors are hesitant to hold a REIT operating to service its debt. We believe shares are overvalued. Still, ILPT's valuation is subjective given the current investment setup.

Safety, Quality, Competitive Advantage, & Recession Resiliency

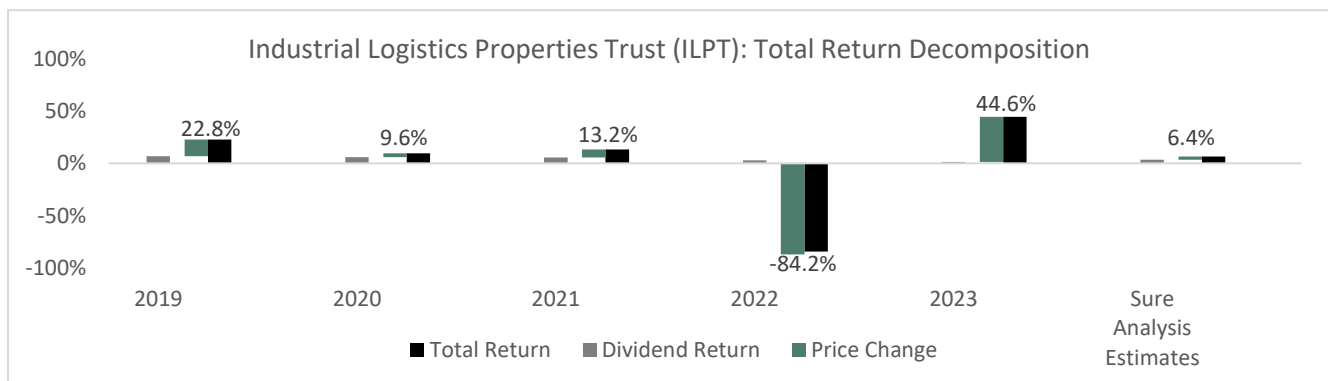
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|-----------|------------|
| Payout | --- | --- | --- | --- | 58% | 75% | 71% | 71% | --- | 9% | 8% | 41% |

Despite the recent acquisition 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 77% of its annualized rental revenues are derived from investment-grade tenants. FedEx, Amazon, and Home Depot account for 21.97%, 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 6.4% in the medium-term, primarily powered by the possibility of gradually higher FFO/share and dividends as well as the possibility of a modest valuation headwind. Shares of ILPT earn a highly speculative hold rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Industrial Logistics Properties Trust (ILPT)

Updated February 21st, 2024 by Nikolaos Sismanis

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.