COMPANY REPORT / 5i OPINION

Summit Industrial Income REIT

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- Strong occupancy rate at 99.2%
- Owns 156 properties in Canada's largest hubs
- Strong revenue growth and net income
- Supported by robust Canadian real estate
- Initiating coverage with a 'B+' rating

MARCH 31, 2022

Traded as:	SMU_u. TO (TSX)
Price:	C$22.02
Dividend:	2.57%
Debt:	Low
Market Cap:	$3.87 Billion
Beta:	0.96

"B+"

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5i Report Card

Metric	Value	Grade
Industry	Real Estate	
Expected 1 year Revenue Growth	13.65%	B
5 Yr. Revenue Growth	37.0%	A+
5 Yr. EPS Growth	54.3%	A+
5 Yr. ROE	N/A	N/A
Gross Margin	74.4%	A+
NOI Margin	58.9%	B+
Current Ratio	0.2x	C
Debt/Equity	0.4x	A-
Insider Ownership	~7.4%	B
5 Yr Dividend Growth	1.9%	B
Qualitative	Strong history of accretive property acquisitions and rental income growth	B+
Rating -		B+

Company Profile

Summit Industrial Income REIT (SMU.UN) is a Real Estate Investment Trust focused on the light industrial markets across Canada. Most of the company's focus is on the Greater Toronto Area (GTA) and the Greater Montreal Area (GMA), with a strengthening focus on properties in Alberta. SMU is the only publicly traded REIT that has all its properties located within the Canadian markets. Summit now owns 156 properties, most of them in the GTA, with a Gross Leasable Area (GLA) of 20.7 million square feet. Its portfolio of properties includes tenants that operate in distribution facilities, warehouses, cold storage, and light manufacturing, with a specific lens on single-tenant properties. Summit boasts an incredibly high occupancy rate at 99.2%, and an increasing number of its tenants include e-commerce and logistics companies. The company's weighted average lease term is 4.7 years, and its average tenant size is 71,000 square feet. It seeks to provide shareholder value through continuous acquisitions of investment properties, financings, development opportunities, and leveraging its size to reach economies of scale.

Revenue Mix

Of the company's 156 total properties owned, 50% are in Ontario, 31% in Alberta, 18% in Quebec, and roughly 1% in New Brunswick. This mix of business across provinces is also reflective of the company's mix of Gross Leasable Area. Summit has a combined occupancy rate of 99.2%, which consists of 99.9% occupancy in Ontario, 100% in Quebec, 97.4% in Alberta, and 100% in New Brunswick. Of the 156 properties Summit owns, there are a total of 292 tenants, mostly in the distribution and warehousing sectors, and more than 84% of its revenue is generated from international and national corporate tenants. By revenue, its top 10 tenants for 2021 are: Atallah Group (3.8%), Amazon (2.5%), Keuhne + Nagel (2.3%), Maple Leaf Foods (2.2%), Pival (2.2%), Her Majesty the Queen (2.1%), Impact Auto Auctions (1.9%), Avon Canada (1.8%), FedEx (1.8%), and Elopak Canada (1.8%). Its revenue breakdown by tenant size range is that 60.1% of its revenue is derived from tenants with over 100,000 square feet, 16.3% is from tenants with 50,000 to 100,000 square feet, 16.7% is from 15,000 to 50,000 square feet, and 6.9% is from tenants with

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15,000 or less square feet.

Growth Plans

Summit has a three-prong strategy that it employs; to grow the size and scale of its property portfolio through accretive acquisitions, development on vacant land that it currently owns or is soon to be owned, and leveraging the strong industrial property markets fundamentals to organically grow its existing property portfolio. The company has a 74% tenant retention rate, and the underlying rental rates are well-below current market going rates. Summit's organic growth is anticipated to come from its ability to raise rental rates on its properties in the GTA and GMA. Summit aims to grow its Funds From Operations (FFO), which is essentially its operating cash flows, by reaching economies of scale. It intends to reach economies of scale through its specific targeting of light industrial properties within the GTA and GMA areas and by identifying expansion opportunities within its tenant base. In its property development side of business, throughout 2021 and 2022 it acquired five development sites with the potential to add 1.2 million square feet of Gross Leasable Area to its GTA portfolio. The Canadian industrial markets are witnessing strong demand with low availability, and supply-chain constraints have suppressed the ability for new construction, and this has acted as a tailwind for Summit. The company anticipates that the industrial property markets will continue to see low levels of supply in 2022 and we should see the company capitalize on growth in the rental rates.

Valuation

Summit has a history of strong revenue and earnings growth, and its higher multiples than peers support this market strength. SMU is trading at a low P/E ratio of 3.4X, reinforced by its strong track record of net profit margin expansion and the robust Canadian industrial property markets. Its price to book ratio of 1.3X is at a slight premium to its peers, being Dream Industrial Real Estate and Granite Real Estate Investment Trust. We are comfortable with Summit's slightly above-average book multiple due to its successful history of accretive acquisitions, and its ability to organically grow revenues through rent increases. In relation to Summit's historical valuation averages, it is trading at a discount, which we feel is partially due to weakness in the broader financial markets as well as a relative price underappreciation compared to the strength of the Canadian industrial markets. We feel comfortable with Summit's current valuation given its track record of revenue and profit margin growth, robustness of the Canadian light industrial markets, and its success in making accretive acquisitions.

Recent Financial Results

SMU reported revenue of $217.0 million for the fiscal year 2021, ended December 31, 2021, which represented an annual growth rate of roughly 14%. This strong top-line performance was driven by the growth of its property portfolio, high tenant retention rate, and its ability to increase rental rates. Funds From Operations (FFO) increased from $94.4 million in 2020 to $100.0 million for 2021. Net income grew from $206.5 million in 2020 to $1.1 billion in 2021, primarily due to a $1.03 billion increase in fair value investment gains because of increasing Canadian real estate valuations. Same property Net Operating In-

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come (NOI), which is a proxy for cash flows, increased by 6.5% in Ontario, 3.4% in Quebec, and 3.4% in Alberta for 2021. This demonstrates the company's ability to organically grow via its existing tenant base. Throughout 2021 it acquired five properties for a total purchase price of $380.9 million and attained interests in three development properties for a total consideration of $32.6 million. We are encouraged by SMU's strong occupancy rate of 99.2%, its tenant retention of 74%, growth in revenues and NOI, and its continued pursuit to acquire new income-generating properties.

RECOMMENDATION:

Potential for organic growth

M&A and developments to aid

Alberta's light industrial market

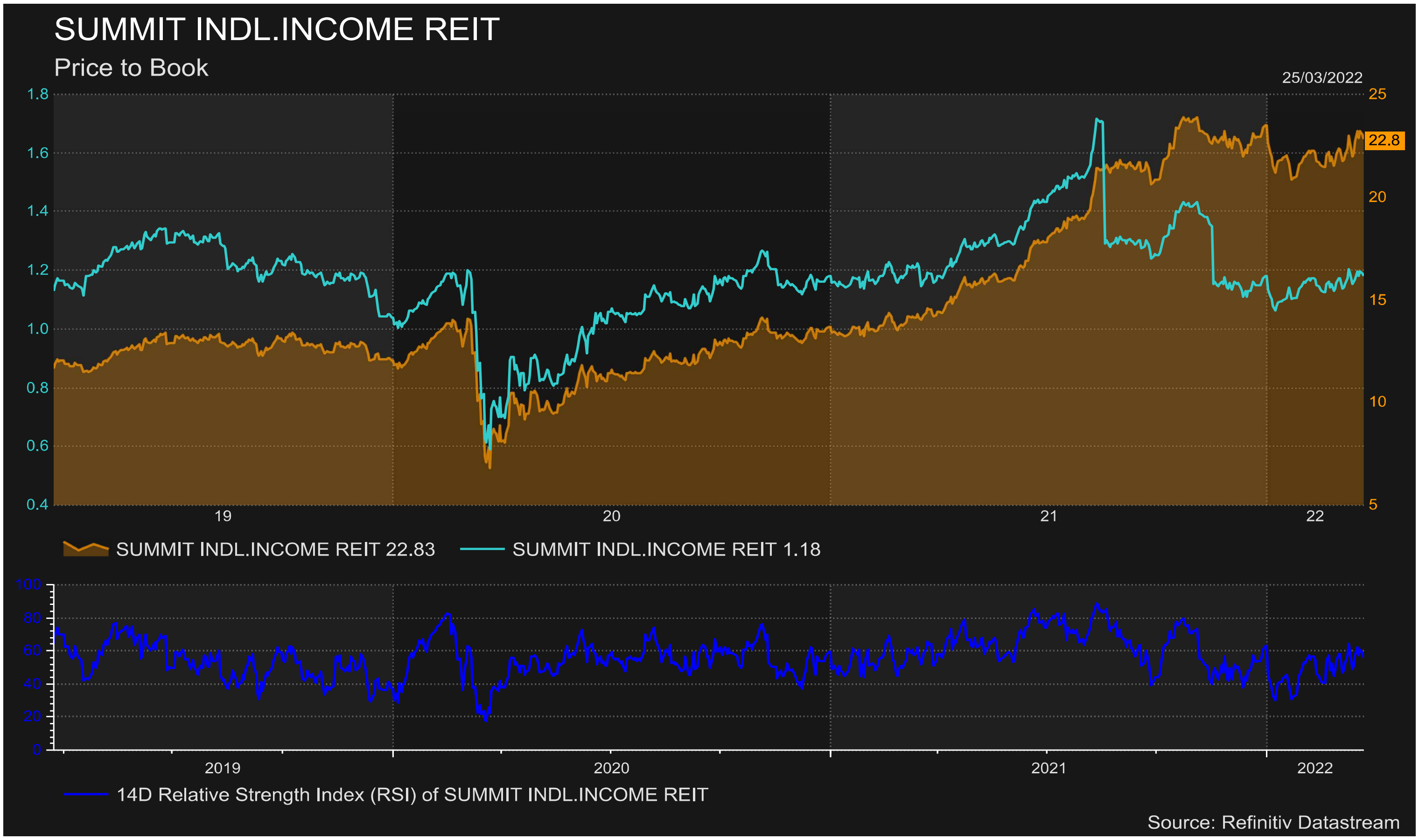
'B+'

Key Risks

The current global economic backdrop of rising concerns of increasing inflation, rising interest rates, and the impacts on economic growth and employment could have a negative ripple effect on Summit's business. Summit's revenue is dependent on strong economic growth and a low unemployment environment, and any changes to these factors can have a negative impact to Summit's revenues. Rising interest rates could have an impact to Summit's ability to access credit or reduce its debt load, and a slowing economy could cause some of Summit's tenants to be unable to meet rental payments. As of the end of 2021, Summit had $13.7 million in variable rate loans, and in the event of a 1.0% increase in interest rates, this would increase the company's financing expenses by $0.1 million. The company is exposed to interest rate risks on its floating rate debt of an unsecured revolving loan, its Green Unsecured Development credit, and variable rate mortgages.

SUMMARY AND INVESTMENT RECOMMENDATION

SMU is a fundamentally-sound Canadian REIT focused on properties in the light industrial market. As the Canadian economy grows and consumer spending increases, so too should the industrial markets and this is where Summit stands to benefit. The Canadian industrial markets have been supported by economic tailwinds of low interest rates, low supply levels, and high economic growth in Summit's two primary areas of investment: the GTA and GMA. Management has demonstrated its ability to grow the company's top and bottom-line by retaining its tenants, increasing rental rates, and acquiring new properties, and we believe that Summit will continue to return positive shareholder value based on these factors. Summit's financial position is robust and is emboldened by a strong Canadian real estate market, robust economic growth, and historically low interest rates. We are initiating coverage at a 'B+' rating.



Peer Relative Valuation

Ticker	Company Name	Fwd P/E	EV/EBITDA	FWD EV/EBITDA	P/B Ratio	Price to Sales Ratio	Fwd Price to Sales Ratio	Dividend Yield
SMU_u.TO	Summit Industrial Income REIT	-	41.27	30.20	1.28	18.68	16.66	2.47%
Peers:								
CAR_u.TO	Canadian Apartment Properties Real Estate Investment Trust	8.98	29.16	26.33	0.91	10.18	9.51	2.65%
REI_u.TO	RioCan Real Estate Investment Trust	15.59	22.99	20.83	1.01	6.76	7.21	3.97%
GRT_u.TO	Granite Real Estate Investment Trust	22.46	28.58	24.11	1.19	16.15	14.12	3.20%
AP_u.TO	Allied Properties Real Estate Investment Trust	-	31.99	26.34	0.95	10.73	9.60	3.67%
0		-	-	-	-	-	-	-
Average		**15.75**	**25.45**	**21.93**	**1.04**	**9.12**	**8.40**	**3.92%**
Median		**15.84**	**28.58**	**21.58**	**1.01**	**8.53**	**7.36**	**3.93%**
Premium(Discount) based on Peers		**NA**	**44.41%**	**39.95%**	**NA**	**118.85%**	**126.32%**	**-37.17%**

Historical Relative Valuation

Ticker	Company Name	EV to EBITDA	P/B Ratio	Price to Sales Ratio
SMU_u.TO	Summit Industrial Income REIT	41.27	1.28	18.68
Current Vs 2 Yr Median		33.94	1.26	14.43
Current Vs 5 Yr Median		29.40	1.16	9.80
Premium (Discount) to 2 Year		**22%**	**2%**	**29%**
Premium (Discount) to 5 Year		**40%**	**11%**	**91%**

Implied Price Based On Peers

Peer Based Target Price	**$**	**25.33**
Implied Price Return		**10.9%**

*Please note, the price target is based on multiples of peers and does not reflect a price that 5i Research neccessarily expects the stock to reach. Please do not view this as an outright buy or sell target.

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5i Research Ratings:

Buy	**A+**	We expect very few A+ ratings. This would represent a near perfect stock. This is a great company in good or bad markets.
	A	A great company over long timeframes, with strong fundamentals and management. Near perfect, but missing one or two factors.
	A-	Similar to an 'A', with one or two small areas that could be improved. A great company, sensitive to external factors.
	B+	Fundamentally strong. Usually a great company in a bad sector. Good for the long-term, but some risks exist.
	B	Some fundamental issues, but still strong. Likely to face risks outside company control. A good company with less financial flexibility.
	B-	A company with higher risk or declining results. Likely to be volatile. Often a company in transition, for better or worse.
Hold	**C+**	A company we do not expect much growth from. It may pay a dividend that we would view as sustainable, in which case we would own for income, but this company needs to be watched closely.
Sell	**C / C-**	Typically, this is a bad company with deteriorating results. It may have some turnaround potential but generally this is a name to avoid.
	D+ / F	There are very few positives to this company. Use this company as a case study on what to avoid.

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