

Manulife US REIT

Portfolio bulwarked against short-term uncertainty

SINGAPORE | REAL ESTATE (REIT) | 1H20 RESULTS

- 1H20 NPI and DPU were in line, forming 49.2% and 47.0% of our FY20e NPI and DPU.
- Positive rental reversions of 7.9% for 1H20. MUST's portfolio remained resilient – no increase in subletting within their assets, and no request from tenants to right-size/downsize or relocate thus far. Minimal rental abatement and deferments offered.
- We remain optimistic on MUST's resilience due to its long WALE, low expiries in FY20/21, tenant quality and tight supply in the markets that MUST has a presence in.
- Maintain BUY with a higher TP of US\$0.90. Our higher TP is mainly due to the lower cost of equity - lowered from 10.0% to 9.1%.

Results at a glance

(USD mn)	1H20	1H19	YoY	Comments
Gross revenue	98.6	83.3	+18.3%	Higher due to contributions from Capitol (acquired Apr 19) and Centrepointe (acquired Oct 19), partly offset by lower rental from Michelson and lower carpark income
Net property income	62.2	52.3	+18.8%	
Distributable income	48.0	40.0	+20.0%	
DPU (cents)	3.05	3.04	+0.3%	Higher despite larger unit base from Private Placement to partially fund acquisitions

Source: Company, PSR

The Positives

+ Positive rental reversions of +7.9% on 217,300 sqft (4.6% of NLA) for 1H20. Of the c.217,300 sqft of leases signed, 50% were renewals, 42% were new leases and 8% were expansions. Leases signed were from the financial, legal, real estate and tech sectors. MUST's portfolio remained resilient – no increase in subletting within their assets, and no request from tenants to right-size/downsize or relocate thus far. MUST's long WALE of 5.7 years translates to low lease expiries of 3.5%/6.1% by GRI for FY20/21. Modest, single-digit rental reversions are still attainable as rents expiring in FY20/21 are 2% to 19% under comparable market rents. Tenants are locked in by leases, which do not have break clauses written in. While asking rates have remained stable, softer leasing activity is expected in this weaker economic environment, which may lead to more tenant incentives being offered to retain/attract tenants.

+ Only 0.3% of rental waivers and 0.3% of deferment provided, based on 1H20's GRI. Little rental support was required due to the quality/resilience of tenants – waivers and deferments were offered mainly to the F&B tenants. MUST's portfolio is anchored by the Legal (22.0%) and Finance and Insurance (19.9%) sectors which have been one of the more resilient sectors throughout the COVID-19 pandemic. MUST's Top 10 tenants (excluding Finance and Legal), account for 24.2% of GRI and are mostly listed companies, government entities and/or use the premise as headquarters.

The Negatives

- **Deterioration of rent collection.** We note that rent collection has been on the downtrend, deteriorating from 99% in April and 97% in May, to 93% in June. Management commented that rents are still being collected, although tenants are taking a longer time to make payment.

- **Portfolio valuations fell 2.9%, pushing gearing up from 37.7% to 39.1%.** Asset valuations deteriorated by -1.9 to -4.7%, averaging -2.9% on a portfolio level, largely due to lower rental growth assumptions used by valuers. As a mathematical consequence, gearing edged up to 39.1%.

Outlook



StocksBnB.com

5 August 2020

BUY (Maintained)

LAST CLOSE PRICE	USD 0.795
FORECAST DIV	USD 0.064
TARGET PRICE	USD 0.900
TOTAL RETURN	21.2%

COMPANY DATA

BLOOMBERG CODE:	MUST SP
O/S SHARES (MN) :	1,573
MARKET CAP (USD mn / SGD mn) :	1251 / 1251
52 - WK HI/LO (SGD) :	1.08 / 0.55
3M Average Daily T/O (mn) :	3.52

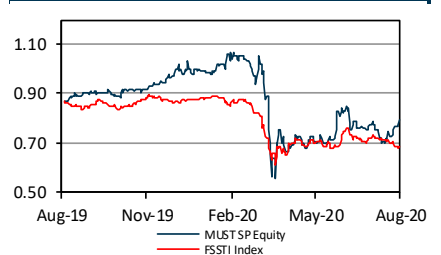
MAJOR SHAREHOLDERS (%)

PRUDENTIAL PLC	5.9%
MANULIFE FINANCIAL CORP	5.5%
DRACHS INV 3 LTD	4.9%
VANGUARD GROUP INC	3.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.6	12.8	(7.2)
STI RETURN	(4.7)	0.3	(19.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Y/E Mar	FY18	FY19	FY20e	FY21e
Gross Rev. (SGD m)	145	178	201	208
NPI (SGD mn)	91	111	126	130
Dist. Inc. (SGD mn)	71	83	101	104
P/NAV (x)	0.93	1.25	1.00	1.01
DPU (cents)	5.57	5.96	6.39	6.49
Distribution Yield	7.23	5.96	8.04	8.16

Source: Company, PSR

VALUATION METHOD

DDM (COE: 9.1%; Terminal Growth: 2%)

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While leasing activity remains weak, we remain optimistic on MUST's resilience due to its long WALE, low expiries in FY20/21, tenant quality and tight comparable supply in the markets that MUST has a presence in. Cautious business sentiment has led to the deferment of major leasing decisions (relocations) resulting in more renewals. We also expect the densification trend to pause due to social distancing measures, hence providing support for leasing demand. Additionally, statistics for office-using sectors show that these sectors (Finance and Insurance, Legal, Professional Services and Tech) remains the most resilient amongst the sectors.

Maintain BUY with a higher TP of US\$0.90 (prev. US\$0.80).

We lower our beta to reflect the relative resilience of US office asset class, owing to the resilience of office-using tenants and long WALEs. Our higher TP is mainly due a lower cost of equity assumption of 9.1% (prev. 10.0%).

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	92.0	144.6	177.9	201.2	208.1
Property operating expenses	(33.7)	(53.9)	(67.1)	(74.8)	(77.8)
Net property income	58.4	90.7	110.8	126.3	130.3
Net Finance (Expense)/Inc.	(9.5)	(19.0)	(25.7)	(25.8)	(27.0)
Manager's base fee	(4.7)	(7.1)	(9.7)	(9.7)	(10.0)
Other items	(1.8)	(2.2)	(2.7)	(3.1)	(3.2)
Net income	42.4	62.3	72.6	87.7	90.1
FV change, derivatives & pptides	31.4	16.9	(13.5)	-	-
Total Return Before Tax	73.8	79.2	58.0	87.7	90.1
Taxation	(15.8)	(14.7)	(10.5)	-	-
Total Return After Tax	58.0	64.5	47.6	87.7	90.1
Distribution adjustments	(11.2)	6.5	35.8	13.2	13.5
Income available for distribution	46.7	71.0	83.3	100.9	103.5

Per unit data

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV (US\$)	0.82	0.83	0.80	0.79	0.79
DPU (US cents)	5.77	5.57	5.96	6.39	6.49

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Total Return Before Tax	73.8	79.2	58.0	87.7	90.1
Adjustments	(18.7)	9.3	50.6	37.1	38.4
WC changes	(1.9)	(8.3)	2.6	(0.3)	(0.1)
Cash generated from ops	53.2	80.2	111.2	124.5	128.4
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from ops	52.2	79.9	110.1	124.5	128.4
CFI					
Purchase of Inv. propty., net	(425.0)	(388.5)	(311.0)	-	-
Capex, net	(9.3)	(10.8)	(45.0)	(3.7)	(3.8)
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from investments	(434.3)	(399.1)	(355.5)	(3.3)	(3.3)
CFF					
Share issuance, net	288.5	197.2	236.7	-	-
Loans, net of repayments	165.9	208.9	146.1	21.0	-
Interest paid	(8.4)	(17.3)	(23.9)	(24.6)	(25.7)
Distributions	(42.5)	(58.7)	(99.4)	(100.8)	(103.5)
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from financing	393.3	323.6	252.1	(106.1)	(131.0)
Net change in cash	11.2	4.4	6.6	15.2	(5.9)
Effects of exchange rate	0.1	(0.0)	0.0	-	-
Ending cash	49.7	60.7	60.7	75.9	70.0

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	1,312.8	1,738.7	2,095.0	2,102.5	2,110.1
Others	-	-	0.5	0.5	0.5
Total non-current assets	1,312.8	1,738.7	2,095.5	2,103.0	2,110.5
Trade receivables	5.9	9.1	7.6	12.6	11.0
Cash	49.7	54.1	60.7	75.9	70.0
Others	-	-	0.5	0.5	0.5
Total current assets	56.4	64.2	71.0	91.2	83.6
Total Assets	1,369.2	1,802.9	2,166.5	2,194.1	2,194.2
LIABILITIES					
Current borrowings	-	109.9	78.9	223.6	186.1
Trade payables	18.2	16.8	26.9	31.2	29.3
Others	-	-	0.5	0.5	0.5
Total current liabilities	19.2	128.9	110.9	260.0	220.6
Non-current borrowings	458.4	557.3	733.1	609.4	646.9
Others	-	-	0.5	0.5	0.5
Total non-current liabilities	497.3	609.8	797.3	674.0	711.6
Total Liabilities	516.5	738.7	908.2	934.0	932.2
Net assets	852.7	1,064.2	1,258.3	1,260.2	1,262.0
Represented by:					
Unitholders' funds	852.1	1,064.1	1,258.2	1,260.1	1,261.9
Perp. securities holders	0.6	0.1	0.1	0.1	0.1

Valuation Ratios

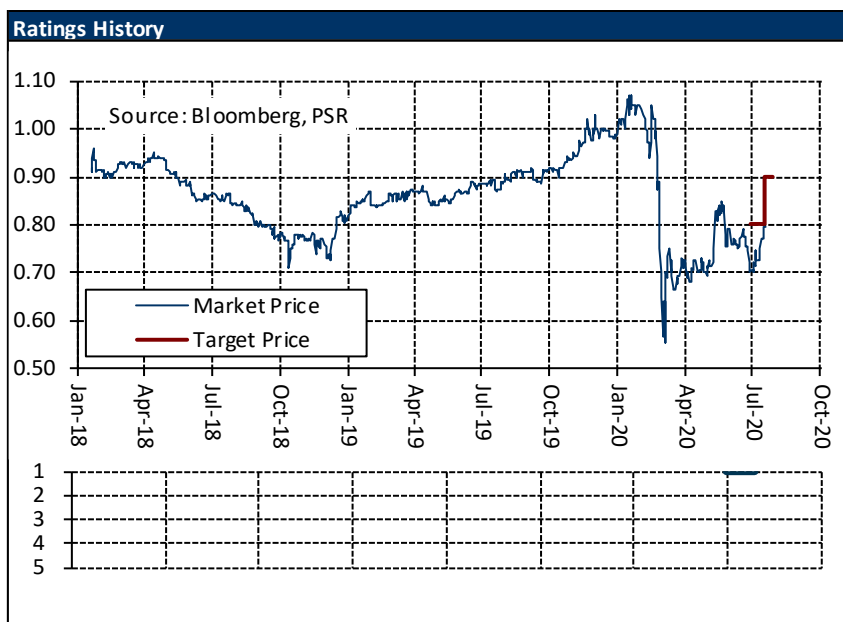
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.10	0.93	1.25	1.00	1.01
Distribution Yield	6.4%	7.2%	6.0%	8.0%	8.2%
NPI yield	5.4%	5.9%	5.8%	6.0%	6.2%

Growth & Margins (%)

Growth					
Revenue	n.m.	57.1%	23.0%	13.1%	3.4%
Net property income (NPI)	n.m.	55.4%	22.2%	14.0%	3.1%
Distributable income	n.m.	51.9%	17.4%	21.1%	2.6%
DPU	n.m.	-3.5%	7.0%	7.2%	1.6%
Margins					
NPI margin	63.4%	62.7%	62.3%	62.8%	62.6%

Key Ratios

Net Debt or (Net Cash)	409	613	751	757	763
Gearing (%)	33.5%	37.0%	37.5%	38.0%	38.0%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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