

Manulife US REIT

Low expiries amid soft leasing

SINGAPORE | REAL ESTATE (REIT) | 3Q20 UPDATE

- No financials released in 3Q20 operational update. Slow quarter with no new leases signed. Portfolio occupancy dipped from 96.2% to 94.3% while portfolio subletting was unchanged at 3.3%.
- Gearing rose from 36.0% to 39.9% YoY due to a 2.9% decline in valuation in June 2020. Long WALE of 5.5 years maintained. Locked in +7.9% rental reversions YTD.
- Maintain BUY with higher DDM TP of US\$0.92, raised from US\$0.90 after incorporating lower cost of debt.

The Positives

+ Rental collections high at 94%, YTD 98%. Rent deferments and abatements were minimal at 0.3% and 0.2% YTD. Slow collections were mainly from F&B, lifestyle and retail tenants.

+ US\$3mn interest savings expected from refinancing. About US\$223.7mn or 26% in borrowings, at a 3.2% interest, will be up for renewal in FY21. Refinancing earlier in the year was done at 1.85%. We are expecting US\$3mn p.a. in interest savings upon refinancing in FY21.

The Negative

- Decline in portfolio occupancy from 96.2% to 94.3%. This was largely due to known expiries unrelated to COVID-19, at Peachtree and Centrepointe. The tenant at Peachtree was a real-estate firm bought out by another real-estate firm. That at Centrepointe was a healthcare firm that changed its business model.

Outlook

Softer leasing expected, near term. According to JLL, the U.S. market lost 28.9mn sqft in occupancy in 3Q20, although rentals grew 0.4%. While MUST did not sign any leases in 3Q20, portfolio subletting was unchanged at 3.3%. Most leases have provisions that allow tenants to sublease, with MUST having the final approval on the type and quality of sublease tenants. Its original tenants will still be liable for the initial stipulated rents but will share upside should the sublease rents exceed the initial contracted rents.

Tenant incentives and free-rent expectations have increased. Tenants have also been renewing on shorter leases of 5-7 years instead of 10. Nonetheless, lease expiries in FY20/21 are low at 1.9% and 6.7% of GRI respectively, owing to MUST's long WALE of 5.5 years. Below-market in-place rents at Capitol and Figueroa, in addition to an absence of new supply in these markets, should help support rents when leases expire.

Tenants exhibiting growing desire to return to office. This was seen in an uptick in physical occupancy, which increased to 13.5% in October 2020, up from 5% in March and 12% in June.

Maintain BUY with higher TP of US\$0.92, up from US\$0.90

Our DDM TP rises to US\$0.92 from US\$0.90 after incorporating lower cost of debt.



StocksBnB.com

9 November 2020

BUY (Maintained)

LAST CLOSE PRICE	USD 0.730
FORECAST DIV	USD 0.064
TARGET PRICE	USD 0.920
TOTAL RETURN	34.8%

COMPANY DATA

BLOOMBERG CODE:	MUST SP
O/S SHARES (MN) :	1,583
MARKET CAP (USD mn / SGD mn) :	1156 / 1156
52 - WK HI/LO (SGD) :	1.08 / 0.55
3M Average Daily T/O (mn) :	2.49

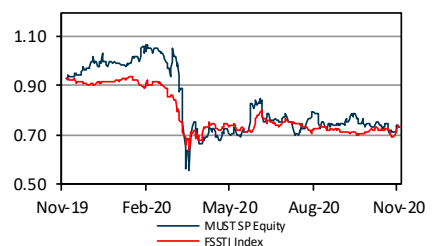
MAJOR SHAREHOLDERS (%)

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	(1.4)	(4.4)	(16.2)
STI RETURN	2.1	1.8	(17.5)

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	107
P/NAV (x)	0.88	0.91	0.92	0.93
DPU (cents)	5.57	5.96	6.39	6.70
Distribution Yield	7.63	8.16	8.75	9.18

Source: Company, PSR

VALUATION METHOD

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

Natalie Ong (+65 6212 1850)

Research Analyst

natalieongpf@phillip.com.sg

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)	(23.7)
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	93.4
FV change, derivatives & pptides	31.4	16.9	(13.5)	-	-
Total Return Before Tax	73.8	79.2	58.0	87.7	93.4
Taxation	(15.8)	(14.7)	(10.5)	-	-
Total Return After Tax	58.0	64.5	47.6	87.7	93.4
Distribution adjustments	(11.2)	6.5	35.8	13.2	13.5
Income available for distribution	46.7	71.0	83.3	100.9	106.9

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	6.70

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	93.4
Adjustments	(18.7)	9.3	50.6	37.1	35.1
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)	(22.4)
Distributions	(42.5)	(58.7)	(99.4)	(100.8)	(106.8)
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

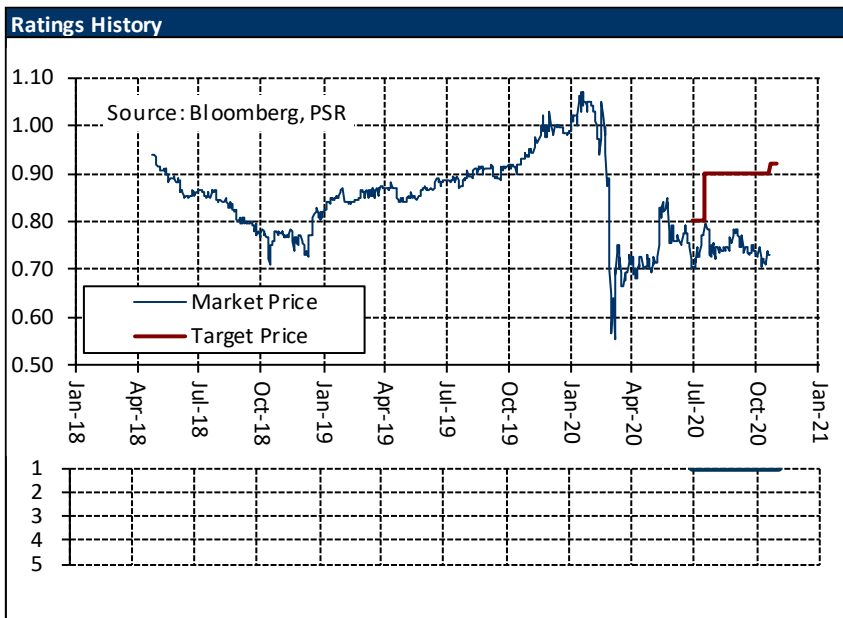
Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	0.89	0.88	0.91	0.92	0.93
Distribution Yield	7.9%	7.6%	8.2%	8.8%	9.2%
NPI yield	5.4%	5.9%	5.8%	6.0%	6.2%

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%	5.9%
DPU	n.m.	-3.5%	7.0%	7.2%	4.9%
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

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Siti Nursyazwina – svazwina@phillip.com.sg
Consumer | Industrial

 Terence Chua – terencechuatl@phillip.com.sg
Property | REITs

 Natalie Ong – natalieongpf@phillip.com.sg
Banking & Finance | Healthcare

 Tay Wee Kuang – taywk@phillip.com.sg
Small-Mid Cap

 Tan Jie Hui – tanjh@phillip.com.sg
Small-Mid Cap

 Vivian Ye Qianwei – yegw@phillip.com.sg
Credit Analyst (Bonds)

 Timothy Ang – timothyang@phillip.com.sg
US Equity

 Yeap Jun Rong – yeapjr@phillip.com.sg
Technical Analyst

 Chua Wei Ren – chuawr@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website www.phillip.co.th
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769
 Website: www.phillipbank.com.kh
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapital.in
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGEX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: + 971-4-3328895

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