Singapore
Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Jan 2019

Singapore REITs

Analyst

Mervin SONG, CFA +65 6682 3715; mervinsong@dbs.com
Derek TAN +65 6682 3716; derektan@dbs.com

Christmas present from the US – no negative impact from new tax regulations

- New proposed tax regulations indicate tax structures for MUST and KORE are in compliance with changes in US tax act from late 2017
- Recent increase in tax rates in Barbados to potentially impact DPU's by up to 1%
- But there is potential for US office REITs to revert back to original IPO tax structure which would reduce effective tax rates going forward
- Maintain BUY on MUST (TP of US$0.88) and KORE (TP of US$0.78)

What's New

New US tax regulations results in no changes to current tax structures

- Both Manulife US REIT (MUST) and Keppel-KBS US REIT (KORE) announced that there is NO impact on their current tax structure from the recently released proposed US tax regulations which provided clarification on the change in the US tax act in late 2017, specifically Section 267A.
- Based on the advice of multiple lawyers and accountants, the entities in Barbados which are used to repatriate cash from the US and Singapore were NOT classified as hybrid entities. If the proposed US tax regulations had classified the Barbados entities as hybrid entities, it would have meant that MUST and KORE would not be able to claim tax deductions on interest on shareholder loans in the US. This would have resulted in the need to repatriate cash from the US as a dividend where a 30% withholding tax was applied rather than 0% under MUST and KORE's current tax structure after applying the interest exemption rule.
- We understand changes in the US tax act was intended to prevent private funds who were claiming interest on shareholder loans as tax deductions in the US but treating these interest as dividends in foreign jurisdictions, thereby reducing their overall tax rate. In the case of MUST and KORE, the interest on shareholders' loans was classified as interest in the US, Barbados and Singapore.
- Do note that these recently released tax regulations are still subject to a final tax regulation which is expected to be promulgated by 22 June 2019. However, we understand based on historical precedence, the final tax regulation is typically no worse that the proposed tax regulations which are released and which are then subjected to further consultation.

Changes in tax rates in Barbados

- In conjunction with the news on the proposed US tax regulations, we understand the Barbados government has harmonised the tax rates for international and domestic companies. The net effect for MUST and KORE is a potentially higher tax rate to be paid on income received by their respective Barbados entities.
- Previously under Barbados tax laws, MUST and KORE's entities were subject to tax ranging from:
  - 2.5% on income received up to US$5m,
  - 2.0% on income received in excess of US$5m up to US$10m
  - 1.5% on income received in excess of US$10m up to US$15m
  - 0.25% on income received in excess of US$15m

Live more, Bank less

- Effective 1 January 2019, the entities are subject to tax ranging from:
  - 5.5% on income received up to US$0.5m
  - 3.0% on income received in excess of US$0.5m up to US$10m
  - 2.5% on income received in excess of US$10m up to US$15m
  - 1.0% on income received in excess of US$15m
- Based on MUST's estimates, it currently pays c.1.5% on distributable income before income tax (for period of 1 January 2018 to 30 September 2018) and there is potential for additional tax expense of not more than 1% of distributable income before income tax.
- For KORE, it currently pays c.1.2% on distributable income before income tax (for period 1 January 2018 to 30 September 2018) and there is potential for additional tax expense of not more than 1% of distributable income before income tax.
- In the case of MUST, we understand currently income is received in Barbados via three entities associated with three shareholder loans. With the tax changes, this would result in a higher tax rate. However, there is potential to consolidate all the income received into one entity, resulting in an effective tax of c.1% as MUST currently receives in excess of US$15m. In addition, we understand there is scope to increase the depreciation tax shield in the US, further reducing its overall effective tax rate.
- For KORE, we understand only one entity receives income in Barbados.

Our thoughts

- While there is potentially for a slightly higher tax to be paid by both REITs due to the increase in tax rates in Barbados, we understand should the final US tax regulations conform to the recently released proposed US tax regulations, we understand there is potential for MUST and KORE to revert back to their original tax structure at IPO where by cash was repatriated directly from the US to Singapore, rather than via Barbados. Under this bull-case scenario, this would translate to minimal tax to be paid on cash repatriated from the US.
- Nevertheless, we believe even if there is a marginal increase in effective tax rates from c.1% to c.2%, the market should react positively to this new US tax development, as there were fears over potential an effective tax rate of 30%. This has resulted in MUST and KORE trading on a forward yield of c.8% and c.11%, respectively, up from mid to high 6% yield before the emergence of recent tax concerns, impact of KORE's rights issue and fears over another US office REIT listing.
- Thus, with risk of a higher effective tax rate diminishing, we reiterate our BUY calls on MUST (TP of US$0.88) and KORE (TP of US$0.78).

US office peer comp as at 28 December 2018

REIT	FYE	Last Price (US$)	Rec	Target Price (US$)	Mkt Cap S$'m	Total Return (%)	DPU (S Cts) FY18F/19F	DPU (S Cts) FY19/20F	DPU (S Cts) FY20/21F	Yield FY18F/19F	Yield FY19/20F	Yield FY20/21F	P/NAV FY17/18A
KORE	Dec	0.595	BUY	0.78	633	42%	5.9	6.3	6.5	10.0%	10.6%	10.9%	0.76
MUST	Dec	0.770	BUY	0.88	1,259	22%	5.5	5.8	5.9	7.2%	7.6%	7.6%	0.89

Source: Bloomberg Finance L.P., DBS Bank

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 2 Jan 2019 07:40:09 (SGT)
Dissemination Date: 2 Jan 2019 07:47:16 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates have proprietary positions in Manulife US Real Estate Inv, Keppel-KBS US REIT recommended in this report as of 30 Nov 2018
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Manulife US Real Estate Inv, Keppel-KBS US REIT recommended in this report as of 30 Nov 2018
4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA or their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of Manulife US Real Estate Inv, Keppel-KBS US REIT as of 30 Nov 2018

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Manulife US Real Estate Inv, Keppel-KBS US REIT as of 30 Nov 2018
6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Manulife US Real Estate Inv, Keppel-KBS US REIT in the past 12 months, as of 30 Nov 2018
7. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

Disclosure of previous investment recommendation produced:

8. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946. DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 (“CA”) in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for “wholesale investors” within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at dbsvhk@dbs.com
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR

Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
11th Floor The Center
99 Queen's Road Central
Central, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com