

Singapore Company Guide

Mapletree North Asia Commercial Trust

Version 19 | Bloomberg: MAGIC SP | Reuters: MAPE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Apr 2020

BUY

Last Traded Price (2 Apr 2020): S\$0.78 (STI : 2,453.03)
Price Target 12-mth: S\$1.05 (35% upside) (Prev S\$1.35)

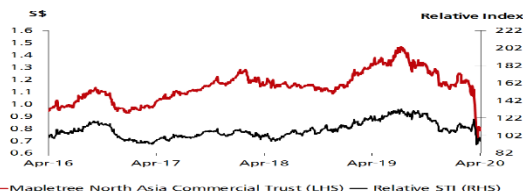
Analyst

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What's New

- Proactive strategy to diversify exposure away from Festival Walk to pay dividends over time
- While near-term disruption to Festival Walk is expected, yields in excess of 9.0% and P/NAV of 0.56x are attractive
- Contribution from new Japan portfolio to compensate for loss of income at Festival Walk
- TP adjusted to S\$1.05

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020F	2021F	2022F
Gross Revenue	409	362	430	442
Net Property Inc	329	283	334	342
Total Return	634	149	194	196
Distribution Inc	241	227	243	247
EPU (S cts)	5.63	4.69	5.95	5.87
EPU Gth (%)	1	(17)	27	(1)
DPU (S cts)	7.69	7.10	7.29	7.34
DPU Gth (%)	3	(8)	3	1
NAV per shr (S cts)	144	142	140	139
PE (X)	13.9	16.6	13.1	13.3
Distribution Yield (%)	9.9	9.1	9.3	9.4
P/NAV (x)	0.5	0.5	0.6	0.6
Aggregate Leverage (%)	36.7	37.1	39.2	38.8
ROAE (%)	4.0	3.3	4.2	4.2

Distn. Inc Chng (%): (2) (4) (4)
Consensus DPU (S cts): 7.10 7.40 7.50
Other Broker Recs: B: 4 S: 1 H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Believing in magic

BUY, TP revised to S\$1.05. We see value emerging for Mapletree North Asia Commercial Trust (MNACT) at 0.56x P/NAV and forward prospective yields of >9.0%. While investors' concerns on the impact of the COVID-19 outbreak on Festival Walk remain valid, we believe that such negatives are priced in at this level. The stock is trading in excess of 2.0% spread against top 10 S-REITs and 3.0% against HK retail peers, levels that we have not seen in the past five years. BUY maintained, TP adjusted to S\$1.05 as we price in higher equity risk assumptions with revised DPU estimates.

Where we differ: Less reliance on Festival Walk. While the performance of MNACT are tied closely to the fortunes of Festival Walk, we like to highlight that through the acquisitions of office properties in Japan, the REIT will gradually diversify its exposure from Festival Walk. As of FY21F, Festival Walk contributes c.55% of NPI vs 62% previously. With a wider earnings base, backed by a long-weighted lease expiry, we anticipate MNACT to deliver even more stable earnings to unitholders going forward. Concerns on the REIT breaching its gearing is also unfounded as we estimate that it will take an unlikely >150-bp expansion in cap rate for Festival Walk before it hits the 45% gearing level.

Revision of earnings. Our earnings estimates are revised downwards by 2% and 4% to account for expected near-term disruption to operations of Festival Walk.

Valuation:

Our DCF-based TP is revised to S\$1.05 on the back of lower earnings estimates and higher cost of equity assumptions.

Key Risks to Our View:

The key risk to our view is a significant downturn in Hong Kong and China's economies, leading to a decline in rents.

At A Glance

Issued Capital (m shrs)	3,219
Mkt. Cap (\$m/US\$m)	2,511 / 1,754
Major Shareholders (%)	
Temasek Holdings Pte Ltd	33.7
Schroders Plc	5.3
AIA Co Ltd	4.9
Free Float (%)	56.1
3m Avg. Daily Val (US\$m)	10.5
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

Mapletree North Asia Commercial Trust

WHAT'S NEW

COVID-19 update

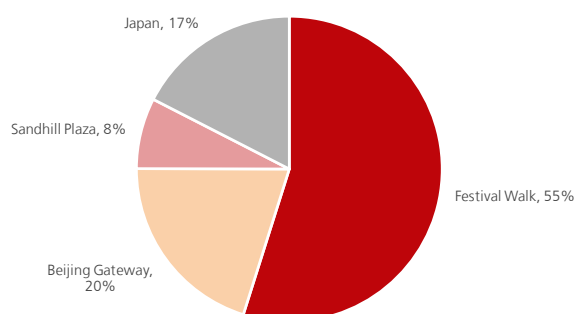
More resilient than previously. MNACT's share price has been under pressure of late, together with the declines seen in the S-REIT sector in March'20. While fundamentals may have deteriorated due to the COVID-19 outbreak, we believe that the close-to-40% slide in share price within a month is excessive for the stock. At a P/NAV of 0.6x and prospective yields in excess of 9%, we advocate investors to relook at MNACT at current levels.

1. More diversified portfolio enables MNACT to weather the COVID-19 storm

Diversifying away from Festival Walk a right strategy for the REIT. MNACT's fortunes have long been associated with the performance of its anchor asset, Festival Walk. We would like to highlight that, while Festival Walk remains a key driver to MNACT's earnings stream, its reliance will diminish over time. This is given the manager's strategy of diversifying its income streams through strategic asset acquisitions, especially in the commercial office sector in Japan. Through acquisitions, we project that from FY21F onwards, Festival Walk's contribution will decline to c.55% of net property income, from the average of c.60-62% previously. The concerted efforts to diversify its earnings will provide MNACT with increased income stability and put it in better stead to ride out the current instability in Hong Kong's retail scene.

More resilient income profile with Japan. The recent acquisition of a portfolio of office properties in Japan will start contributing from 4QFY20 and will be a driver to revenues going forward. Meanwhile, Festival Walk mall will continue to further step up its income as its operations stabilise going into FY21. Based on our estimates, we see MNACT being a more stable vehicle going forward with contribution from a wider geographical source.

Exposure of Festival Walk to decline to c.55% (NPI)



Source: DBS Bank

2. Festival Walk to see a temporary disruption; but earnings momentum will continue in the medium term.

Festival Walk – temporary weakness but it will rise again. The onset of the COVID-19 outbreak has been a spanner in the works for the continued operational pick-up for Festival Walk in the near term. Worries of the spread of the virus have prompted authorities to limit tourist travels while locals have curbed their spending (shopping and entertainment). This is expected to hit foot traffic at the mall and tenant sales.

The manager has done a stellar job in limiting the closure of Festival Walk to just 64 days and reopening in Jan'20, with committed occupancy rates at a robust 100% as of end-December 2019.

That said, the near-term disruption from the COVID-19 outbreak is expected and we anticipate a near-term reset to expectations of Festival Walk returning back to full capacity. With the current situation remaining fluid and the increased risk aversion by consumers to stay home, it will likely hit the retail scene hard. According to media reports, we understand that various landlords in Hong Kong have been proactively cutting their rentals, especially to the Food & Beverage (F&B) sector which is the most impacted.

Earnings revision; but MNACT still offers a c.9.0% prospective yield.

In our revised estimates, we have now assumed occupancy rates for Festival Walk to dip slightly to 95% in FY21 and rental reversions to dip by 10% (vs +2% previously). This is in line with our Hong Kong analyst expectations that retail rents will fall by 15-25% in 2020. The more resilient performance is due to Festival Walk's historical outperformance vs the overall market given its focus within the less discretionary consumer trends and its less reliance on tourists as a target market.

Our estimates are revised down by 2% and 4% for FY20F and FY21F respectively. Our TP is adjusted down to S\$1.05 (vs S\$1.35 previously) as we hiked up our beta estimates to account for higher cost of equity in recessionary conditions.

Summary of earnings revision (Festival Walk)

	FY20F	FY21F	TP
Previous	7.25	7.59	S\$1.35
New	7.10	7.29	S\$1.05
% Chg	-2%	-4%	
Previous Assumptions:			
Rental Growth	3%	3%	
Occupancy rate	95%	100%	
New Assumptions:			
Rental Growth	-	-10%	
Occupancy rate	95%	90%	

Source: company, DBS Bank

3. Solid portfolio which can withstand an expansion in cap rates

Portfolio valuation should remain relatively stable; gearing levels are comfortable. While there are questions regarding potential weakening of capital values, especially for Festival Walk in light of the past protests in Hong Kong and the COVID-19 outbreak, we estimate that it will take a close to 150-bp expansion in cap rates for Festival Walk's valuation for the REIT to breach its gearing limit of 45%.

On a portfolio basis, it will take an expansion of more than 70-100bps in cap rates before the REIT will burst its 45% gearing limit, implying that valuation shifts of up to 15% can be tolerated.

These are unlikely scenarios given that valuers usually take a longer-term view on cashflows and the lack of major transactions supporting such a significant shift in cap rates. Hence, we believe that current prices at close to 0.6x P/NAV, implying a cap rate of 6.0%, are excessively high and unwarranted.

Gearing sensitivity to changes in Festival Walk's valuation

FY21	FY21F	-10%	-20%	-25%
Gearing (%)	39.2%	41.7%	44.5%	46.1%
FW NPI Yield (%)	3.7%	4.2%	4.9%	5.4%
Implied NPI Yield	4.0%	4.3%	4.6%	4.7%

Source: company, DBS Bank

Gearing sensitivity to changes in portfolio valuation

FY21	FY21F	-10%	-15%	-20%
Gearing (%)	39.2%	43.6%	46.1%	49.0%
Implied NPI Yield	4.0%	4.5%	4.7%	5.0%

Source: company, DBS Bank

4. Strong access to debt capital markets.

Long weighted average debt expiry (WADE). MNACT has a WADE of 3.13 years (as of 31 Dec'19 and only 7% [S\$212m] of its total debt up for renewal by Mar'20 and another 7% of debt [S\$209m] due by Mar'21. Given the relatively small quantum, we do not anticipate refinancing risks in the medium term.

Debt expiry profile

	Bank debt	Bonds	Total	% debt
Mar'20	117	95	212	7%
Mar'21	209	-	209	7%
Mar'22	305	175	480	17%
Mar'23	295	220	515	18%
Mar'24	514	225	739	26%
Mar'25	365	40	405	14%
Mar'26	191	40	231	8%
Mar'27	-	101	101	3%
Total	1,996	896	2,892	100%

Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

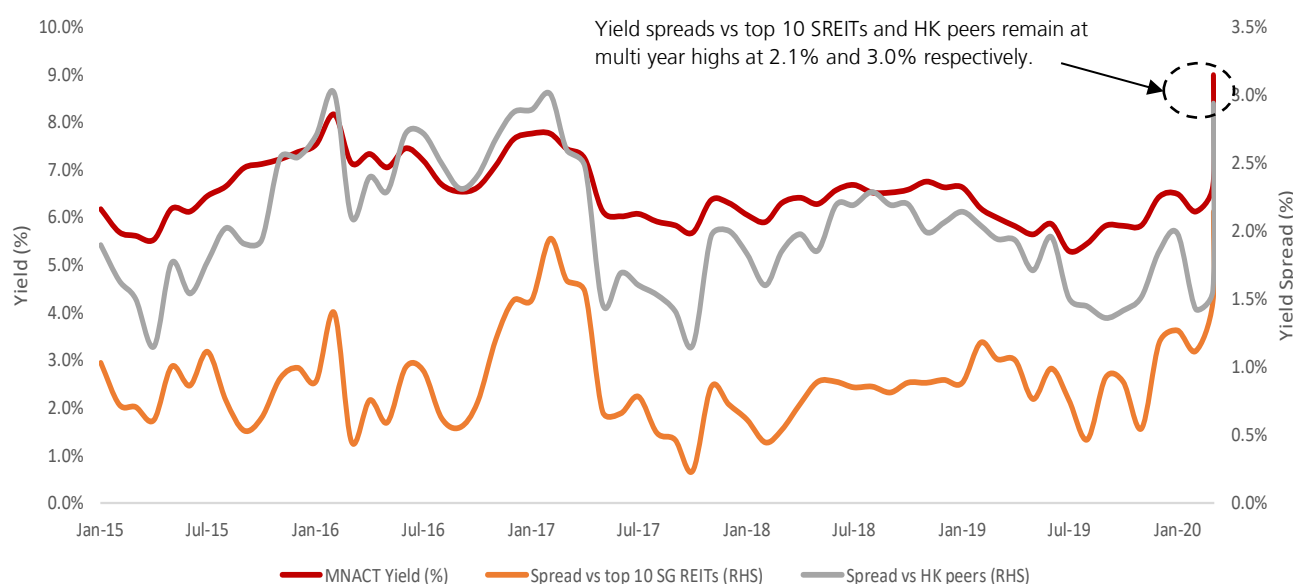
5. Attractive yields

Attractive yields in excess of 9.0%. With revised estimates, MNACT still trades at an attractive P/NAV of 0.56x and prospective yields of c.9.0%, which is more than 2% and 3% higher than the average yields of top 10 S-REITs and HK peers respectively. Acknowledging the earnings uncertainty from

Festival Walk, we believe that these negatives are priced in at current prices.

Surprises will hinge on MNACT's ability to deliver better-than-projected growth in operational income for its portfolio and Festival Walk, where such concerns will be mitigated over the longer term.

Yield of MNACT, yield spreads vs peers (top 10 market cap S-REITs and HK REITs)



Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

CRITICAL DATA POINTS TO WATCH

Critical Factors

Festival Walk to rise again from double whammy of protestors disruption and COVID-19 outbreak. The onset of the COVID-19 outbreak has been a spanner in the works for the continued operational pick-up for Festival Walk in the near term. Worries of the spread of the virus have prompted authorities to limit tourist travels while locals have curbed their spending (shopping and entertainment). This is expected to hit foot traffic at the mall and tenant sales. The manager has done a stellar job in limiting the closure of Festival Walk to just 64 days and reopening in Jan'20, with committed occupancy rates at a robust 100% as of end-December 2019. The expected drop in traffic at Festival Walk will be a near-term hurdle for the manager to cross.

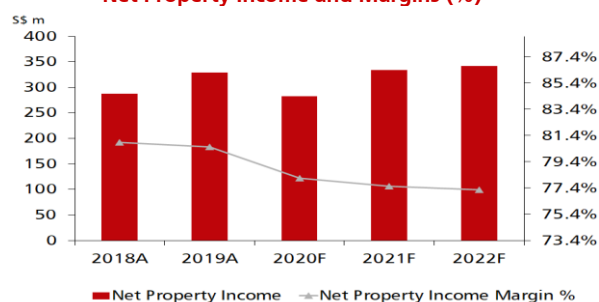
Sandhill Plaza remains under-rented. Sandhill Plaza in Shanghai is expected to continue driving MNACT's earnings. However, we believe the benefits from this acquisition have not been fully realised as passing rents at the property remain at c.10-15% below market. In the near term, the property should benefit from the 15% positive rental reversions generated.

Expansion to Japan offer resilience. Due to the tight yields for properties in China and HK, combined with MNACT's relatively high trading yield, it may be difficult for MNACT to acquire properties and still achieve DPU accretion. The planned acquisition from Japan at 4.5% yield will provide some form of resilience to MNACT as it works on bringing back Festival Walk to its former glory.

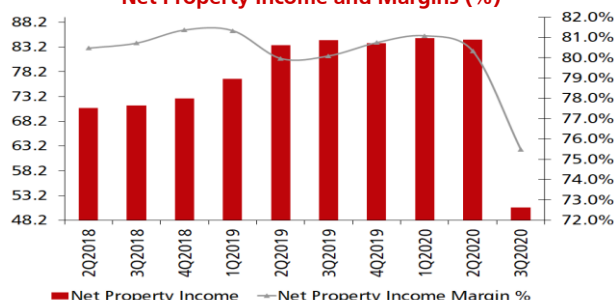
Stable contribution from Gateway Plaza. With Gateway Plaza's passing rent approaching the top end of the asking rent range of RMB320-350 per sqm per month, we believe rental reversions will now be more modest. In addition, with slowing demand in Beijing, we expect Gateway Plaza to deliver more stable contribution going forward. This compares to the high-growth period several years back when the property was significantly under-rented.

Upside from acquisitions. The manager remains keen to acquire and grow, which we have yet to factor in. This inorganic strategy could offer potential upside to our DPU estimates.

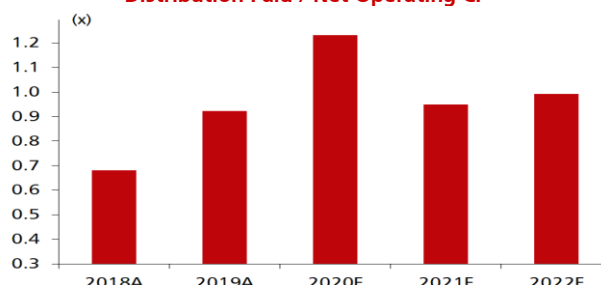
Net Property Income and Margins (%)



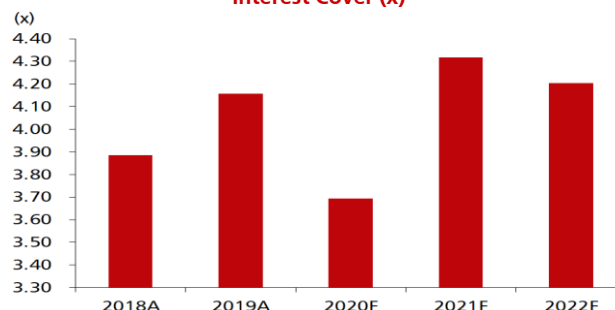
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Balance Sheet:

Optimal gearing levels. We expect gearing to head up to 39% post acquisitions and remain there, excluding any revaluation gains or acquisitions.

Moderate exposure to rising interest rates. The manager intends to fix a substantial part of the interest costs into fixed rates (c.70-90% range) which will partially insulate the REIT against rising interest rates in the near term.

Share Price Drivers:

Festival Walk to drive growth ahead. Investors may be concerned about the outlook for retail rents in Hong Kong in the medium term. While Festival Walk reopened earlier than expected with downside risks mitigated, we believe that the stronger operational earnings will sequentially drive the stock higher in the medium term.

Yields to compress to HK peers' level. Over the last five years since listing, MNACT has posted a strong performance in terms of DPU growth, tenant sales and rental reversions. Thus, we believe MNACT's yield premium to its HK-listed peers is unwarranted.

Key Risks:

Foreign exchange risks. While FX over the past two years has been a tailwind, the depreciation of the HKD and CNY would negatively impact MNACT's DPU and NAV per share on a lagged basis. MNACT hedges its income to smoothen out the volatility from movements in FX rates.

Economic risks. A significant economic downturn in HK and China would cause a decline in rents for retail and office properties. This would, in turn, negatively impact MNACT's earnings and DPU.

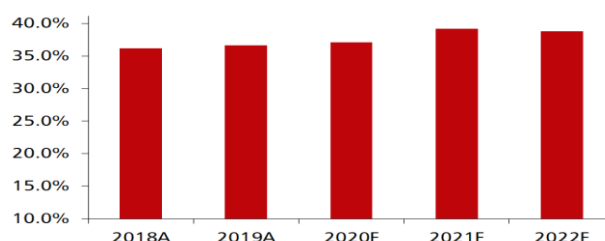
Environment, Social, Governance:

The manager's risk measurement framework is based on the Value-at-Risk methodology that tracks fluctuations in market and property risk factors. In terms of sustainability, the manager has enhanced water efficiency by 4.0% from FY17/18 to FY18/19. MNACT was also granted five awards by the Hong Kong Green Shop Alliance for its eco-friendly initiatives at Festival Walk mall.

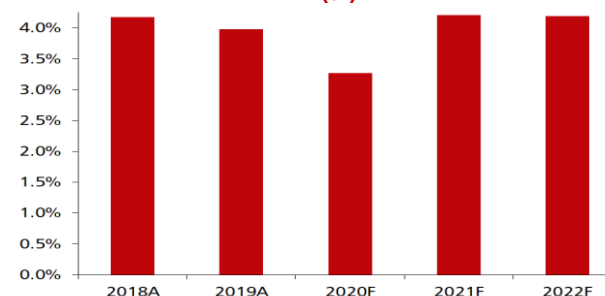
Company Background

MNACT is a Singapore real estate investment trust (S-REIT) established with the investment strategy of investing, directly or indirectly, in a diversified portfolio of income-producing commercial real estate in the Greater China region and Japan.

Aggregate Leverage (%)



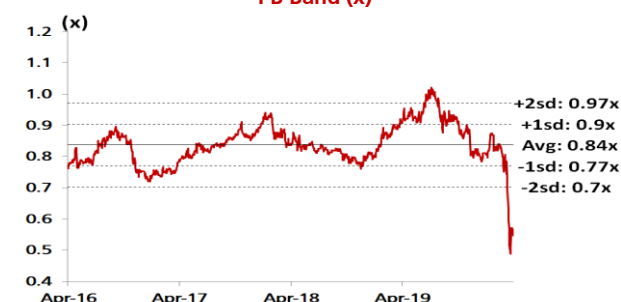
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Income Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Gross revenue	355	409	362	430	442
Property expenses	(67.9)	(79.7)	(79.1)	(96.8)	(101)
Net Property Income	287	329	283	334	342
Other Operating expenses	(24.2)	(28.2)	(21.8)	(26.3)	(27.7)
Other Non Opg (Exp)/Inc	5.84	2.19	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(67.7)	(72.4)	(70.6)	(71.2)	(74.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	201	231	190	236	239
Tax	(43.9)	(61.4)	(40.3)	(41.2)	(42.4)
Minority Interest	0.0	(0.5)	(0.5)	(0.5)	(0.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	157	169	149	194	196
Total Return	574	634	149	194	196
Non-tax deductible Items	53.7	71.9	46.4	48.7	50.4
Net Inc available for Dist.	211	241	227	243	247
Growth & Ratio					
Revenue Gth (%)	1.3	15.1	(11.5)	19.0	2.8
N Property Inc Gth (%)	0.5	14.6	(14.1)	18.0	2.5
Net Inc Gth (%)	2.3	7.4	(11.5)	30.1	1.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	80.9	80.5	78.1	77.5	77.3
Net Income Margins (%)	44.3	41.3	41.3	45.2	44.4
Dist to revenue (%)	59.4	58.9	62.7	56.5	55.8
Managers & Trustee's fees	6.8	6.9	6.0	6.1	6.3
ROAE (%)	4.2	4.0	3.3	4.2	4.2
ROA (%)	2.4	2.4	1.9	2.4	2.4
ROCE (%)	3.4	3.3	2.8	3.4	3.3
Int. Cover (x)	3.9	4.2	3.7	4.3	4.2

Contribution from Japan, offset by lower revenues from Festival Walk

Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Quarterly / Interim Income Statement (\$m)

FY Mar	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Gross revenue	106	104	105	106	67.3
Property expenses	(21.0)	(20.0)	(19.8)	(20.8)	(16.5)
Net Property Income	84.6	84.0	85.0	84.7	50.8
Other Operating expenses	(7.2)	(7.6)	(7.2)	(7.1)	(5.8)
Other Non Opq (Exp)/Inc	0.44	1.12	(0.2)	0.21	3.63
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(18.6)	(17.9)	(17.9)	(18.5)	(18.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	59.3	59.6	59.8	59.4	30.5
Tax	(10.2)	(31.8)	(10.8)	(10.4)	(5.0)
Minority Interest	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Net Income after Tax	48.9	27.7	48.9	48.9	25.4
Total Return	48.9	493	48.9	48.9	25.4
Non-tax deductible Items	12.1	34.4	13.2	12.9	2.18
Net Inc available for Dist.	61.0	62.1	62.0	61.7	53.4
Growth & Ratio					
Revenue Gth (%)	1	(2)	1	1	(36)
N Property Inc Gth (%)	1	(1)	1	0	(40)
Net Inc Gth (%)	7	(44)	77	0	(48)
Net Prop Inc Margin (%)	80.1	80.7	81.1	80.3	75.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Investment Properties	6,292	7,610	7,618	8,111	8,121
Other LT Assets	40.6	16.5	16.5	16.5	16.5
Cash & ST Invt	179	180	159	161	95.8
Inventory	0.74	0.67	0.67	0.67	0.67
Debtors	9.42	9.32	8.25	9.82	10.1
Other Current Assets	2.04	5.50	5.50	5.50	5.50
Total Assets	6,523	7,820	7,807	8,304	8,249
ST Debt	83.8	288	288	288	288
Creditor	87.3	93.2	79.5	93.0	93.9
Other Current Liab	30.2	32.4	32.4	32.4	32.4
LT Debt	2,277	2,580	2,611	2,967	2,911
Other LT Liabilities	155	237	237	237	237
Unit holders' funds	3,889	4,585	4,554	4,681	4,681
Minority Interests	0.0	4.68	5.17	5.66	6.15
Total Funds & Liabilities	6,523	7,820	7,807	8,304	8,249
Non-Cash Wkg. Capital	(105)	(110)	(97.5)	(109)	(110)
Net Cash/(Debt)	(2,182)	(2,688)	(2,740)	(3,094)	(3,103)
Ratio					
Current Ratio (x)	0.9	0.5	0.4	0.4	0.3
Quick Ratio (x)	0.9	0.5	0.4	0.4	0.3
Aggregate Leverage (%)	36.2	36.7	37.1	39.2	38.8
Z-Score (X)	0.8	0.7	0.7	0.6	0.7

Gearing to remain at 39%

Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	201	231	190	236	239
Dep. & Amort.	3.49	3.49	3.49	3.49	3.49
Tax Paid	(37.9)	(28.4)	(40.3)	(41.2)	(42.4)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	43.0	(0.2)	(12.6)	11.9	0.70
Other Operating CF	96.6	103	43.4	45.7	47.4
Net Operating CF	306	309	184	256	249
Net Invst in Properties	(5.0)	(736)	(9.0)	(493)	(11.1)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.27	(0.1)	0.0	0.0	0.0
Net Investing CF	(4.7)	(737)	(9.0)	(493)	(11.1)
Distribution Paid	(209)	(285)	(227)	(243)	(247)
Chg in Gross Debt	(30.2)	463	31.0	356	(56.0)
New units issued	0.0	325	0.0	127	0.0
Other Financing CF	(65.2)	(76.1)	0.0	0.0	0.0
Net Financing CF	(304)	426	(196)	239	(303)
Currency Adjustments	0.0	(1.6)	0.0	0.0	0.0
Chg in Cash	(2.4)	(2.8)	(20.7)	2.11	(65.4)
Operating CFPS (\$ cts)	9.37	10.3	6.18	7.47	7.40
Free CFPS (\$ cts)	10.7	(14.2)	5.50	(7.3)	7.09

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Apr 19	1.31	1.45	BUY
2:	30 Apr 19	1.36	1.60	BUY
3:	27 Jun 19	1.42	1.60	BUY
4:	18 Jul 19	1.45	1.65	BUY
5:	30 Jul 19	1.42	1.65	BUY
6:	16 Aug 19	1.33	1.65	BUY
7:	30 Sep 19	1.32	1.65	BUY
8:	29 Oct 19	1.27	1.60	BUY
9:	11 Nov 19	1.23	1.60	BUY
10:	06 Dec 19	1.18	1.30	BUY
11:	21 Jan 20	1.24	1.35	BUY

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

Rachel TAN

DBS Bank recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 3 Apr 2020 07:49:02 (SGT)

Dissemination Date: 3 Apr 2020 08:10:39 (SGT)

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