

Singapore Company Update

Mapletree North Asia Commercial Trust

Bloomberg: MAGIC SP | Reuters: MAPE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Sep 2020

BUY

Last Traded Price (25 Sep 2020): S\$0.895 (STI : 2,472.28)

Price Target 12-mth: S\$1.05 (17% upside)

Analyst

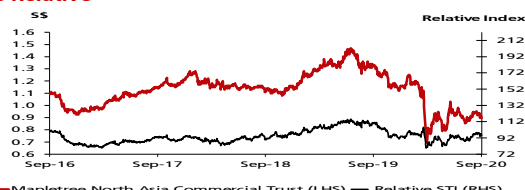
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What's New

- Joint acquisition with Sponsor of The Pinnacle Gangnam, Korea for KRW 458.8bn (\$536.4m)
- Initial yield of 3.2%, with upside if occupancy heads up in the medium term
- Debt funded, accretion of 0.4% expected; gearing rises to c.41%
- BUY, S\$1.05 TP

Price Relative



Forecasts and Valuation

| FY Mar (\$m) | 2020A | 2021F | 2022F | 2023F |
|------------------------|-------|-------|-------|-------|
| Gross Revenue | 354 | 411 | 442 | 449 |
| Net Property Inc | 277 | 318 | 342 | 347 |
| Total Return | 124 | 175 | 194 | 199 |
| Distribution Inc | 228 | 221 | 244 | 249 |
| EPU (S cts) | 3.87 | 5.42 | 5.96 | 6.06 |
| EPU Gth (%) | (31) | 40 | 10 | 2 |
| DPU (S cts) | 7.10 | 6.82 | 7.47 | 7.55 |
| DPU Gth (%) | (8) | (4) | 9 | 1 |
| NAV per shr (S cts) | 147 | 146 | 145 | 143 |
| PE (X) | 23.1 | 16.5 | 15.0 | 14.8 |
| Distribution Yield (%) | 7.9 | 7.6 | 8.3 | 8.4 |
| P/NAV (x) | 0.6 | 0.6 | 0.6 | 0.6 |
| Aggregate Leverage (%) | 39.3 | 39.5 | 39.3 | 39.3 |
| ROAE (%) | 2.7 | 3.7 | 4.1 | 4.2 |

| | | | |
|-----------------------|------|------|------|
| Distr. Inc Chng (%) | - | - | - |
| Consensus DPU (S cts) | 6.20 | 7.00 | 7.20 |
| Other Broker Recs: | B: 5 | S: 0 | H: 2 |

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Heading to Gangnam in style

Investment Thesis

Negatives priced in at trough valuations. We maintain our BUY call on Mapletree North Asia Commercial Trust (MNACT) at a target price of S\$1.05. At 0.6x P/NAV and forward yield of >8.0% vs sector average of 5.5%, we believe returns are attractive at current levels.

Reduces earnings reliance on Festival Walk. The REIT has diversified through strategic acquisitions in Japan, adding income stability in the longer term, while offsetting the temporary drop in income from the closure of anchor mall asset, Festival Walk (in Hong Kong).

An index candidate. With greater income diversity from Japan and Korea, we believe that prospects of potential inclusion into the EPRA NAREIT Developed World Index will drive share price upside in the medium term.

Valuation:

Our DCF-based TP is maintained S\$1.05 as we have not priced in the recent acquisition in our estimates.

Where we differ:

Consensus tends to ascribe too high a risk given its exposure to Festival Walk. With acquisitions, MNACT will reduce its reliance on this property and accelerate its growth momentum.

Key Risks to Our View:

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

At A Glance

| | |
|--------------------------------------------------------------------|---------------|
| Issued Capital (m shrs) | 3,243 |
| Mkt. Cap (\$m/US\$m) | 2,903 / 2,107 |
| Major Shareholders (%) | |
| Temasek Holdings Pte Ltd | 38.4 |
| Schroders Plc | 5.1 |
| Free Float (%) | 56.5 |
| 3m Avg. Daily Val (US\$m) | 4.1 |
| GIC Industry : Real Estate / Equity Real Estate Investment (REITs) | |



Live more, Bank less

WHAT'S NEW

Diversifying into Korea

Maiden transaction in Korea with the acquisition of a 50% stake in a freehold Seoul office

- Mapletree North Asia Commercial Trust (MNACT) announced a joint acquisition with sponsor Mapletree Investments (49.95% stake) of office asset 'The Pinnacle Gangnam' in Seoul.
- The agreed acquisition price is KRW 452bn (c. S\$528.4m), representing a 1.5% discount to the asset's latest valuation by Colliers, at an entry NPI yield of 3.2%.
- Debt funded acquisition - yield accretion of 0.4% on pro forma FY19/20 basis.
- Gearing is expected to increase from 39.6% to 41.4% post completion of the deal.
- The deal will increase the percentage of freehold assets within MNACT's portfolio to 55.6% and total AUM from S\$8.26bn to S\$8.53bn.

Freehold 20-storey office building with Grade A specifications

- The Pinnacle Gangnam is a 9-year old freehold building comprising of 20-storeys of offices and six basement levels; we understand the asset is one of the "youngest" office properties within Gangnam.
- Total GFA of the asset stands at 44,444 sqm, inclusive of 181 parking lots.
- Asset WALE stands at 2.8 years by gross rental income with below market occupancy rate of 89.6%.
- There are currently 34 tenants in the building, with established national and international IT manufacturers and apparel makers within the profile mix.
- Key tenants include Qualcomm, HUVIS, JustCo, Ralph Lauren and Echo Marketing.
- 97% of the leases have in-built fixed annual rental escalations of approximately 2-3%.
- The building has direct access to the subway via Gangnam-gu Office station (Line 7 and Bundang Line) which allows good connectivity to other major business districts in Seoul.
- It is also well-served by public transport networks, including bus and rail across the Seoul metropolitan area and regional transportation via high speed KTX train services.

Geographical diversification with a 3% exposure in South Korea (by net property income)

- The deal will give MNACT access to the expanding South Korea real estate market and a possible pipeline from the Sponsor's remaining 49.5% stake in the property.
- South Korea registered the third highest volume of commercial real estate transactions in APAC in 1H20, behind China and Japan.
- The Gangnam Business District (GBD), where 'The Pinnacle Gangnam' is located, stands as a key hub for information technology, digital and pharmaceuticals, and represents one of three key office districts in Seoul.
- Leasing demand in GBD is driven by high-growth sectors and has the lowest vacancy rate of 4.2% among the three major office submarkets.
- Apart from two office projects scheduled for completion this year, which will add another 212k sqm of office space to the submarket, there will be no additional large-scale projects until 2024.

Our thoughts

Consistent diversification strategy to be read positively; indexation a medium-term target. The manager of MNACT has consistently looked to diversify the REIT's earnings base away from the retail sector and Hong Kong (c.65% of NPI as of FY21F to c.60% post completion of the acquisition). Given the recent earnings volatility and uncertainty of the retail scene in Hong Kong, we believe that the addition of more office properties in developed markets of Japan and Korea, where income is more stable, adds to the overall cashflow stability to the REIT in the medium term.

Post the completion of this acquisition in Korea, we see a concerted pivot towards more developed markets, which is expected to contribute c.72% as of 1Q21 but will rise to c.78% on a normalised basis (inclusive of Hong Kong, Japan and Korea). Over time, we believe this will set the stage for an eventual consideration for possible indexation into the EPRA NAREIT Developed World Index.

Mapletree North Asia Commercial Trust

Accretive to earnings with upside on more optimal occupancy levels. While the initial yield of 3.2% appears low, we understand this is due the property's age which allows it to be competitive in the Gangnam submarket. In addition, we note that the property has (i) low occupancy rate of 89.6% and (ii) in-place rents which are slightly below market. While there is a major number of tenants renewing in FY22F of c.51.3%, we understand that tenants are looking to renew their leases and are also looking to expand at this property. Assuming that the occupancy is raised to market average of c.95%, yields may rise to c.3.5% based on our estimates. Annual rental escalations of c.2%-3% will drive returns higher in the medium term.

Gearing level heads above 40%. Based on a full debt funding scenario, the Manager expects, on a pro-forma basis, an accretion of c.0.4%. Gearing is estimated to rise to c.41.4% (vs 39.6%) post the deal with the Manager expecting to fund the acquisition through a mix of onshore (KRW) and offshore loans. While gearing appears high at slightly above >40%, we note that given the REIT's geographically diversified exposure and chunky office assets, this level is within a financially optimal level. With MAS lifting gearing limits to 50%, there is ample debt capacity and headroom for MNACT even at current levels.

Waiver of performance fees. The Manager has also announced the waiver of its entitlement to performance fees until such a time when DPU exceeds 7.12 Scts (which is the DPU achieved in FY20, prior to the impact of COVID-19). This unitholders' friendly move should be music to unitholders' ears especially in a year where DPUs are under pressure due to rental rebates offered to tenants while a normalised year may result in an outsized performance fee. This waiver will cease if DPU exceeds 7.12 Scts.

We have maintained our estimates for now, pending completion. TP S\$1.05 maintained.

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.

Summary of property

| The Pinnacle Gangnam | | Summary | |
|-------------------------------------------------------------------------------------|--|-----------------------------------------------|-----------------------------------------------------------------------------------------|
|  | | Description: | 20-storey FH property with 6 underground floors and access to Gangnam-gu Office station |
| | | Completion: | 2011 |
| | | GFA: | 44,444 sqm |
| | | Occupancy: | 89.6% (Jul'20) |
| | | WALE: | 2.8 years (Jul'20) |
| | | Valuation : | KRW 458.8m (\$536.4m) |
| | | Purchase price/ MNACT's 50% stake: | KWW 452.0 (\$528.4m) KWR 226.0 (\$264.2) |
| | | Major Tenants: | Qualcomm, Huvis, JustCo, Ralph Lauren, Echo Marketing |
| Source: Manager, DBS Bank | | | |

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (\$m)

| FY Mar | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------------|------------|------------|------------|------------|------------|
| Gross revenue | 409 | 354 | 411 | 442 | 449 |
| Property expenses | (79.7) | (77.0) | (93.4) | (101) | (102) |
| Net Property Income | 329 | 277 | 318 | 342 | 347 |
| Other Operating expenses | (28.2) | (26.1) | (24.4) | (27.5) | (27.1) |
| Other Non Opg (Exp)/Inc | 2.19 | (16.9) | 0.0 | 0.0 | 0.0 |
| Associates & JV Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Interest (Exp)/Inc | (72.4) | (72.8) | (78.2) | (77.9) | (77.6) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | 231 | 162 | 215 | 236 | 242 |
| Tax | (61.4) | (37.5) | (40.1) | (42.2) | (43.1) |
| Minority Interest | (0.5) | (0.7) | (0.5) | (0.5) | (0.5) |
| Preference Dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income After Tax | 169 | 124 | 175 | 194 | 199 |
| Total Return | 634 | 124 | 175 | 194 | 199 |
| Non-tax deductible Items | 71.9 | 71.5 | 46.1 | 50.1 | 49.9 |
| Net Inc available for Dist. | 241 | 228 | 221 | 244 | 249 |
| Growth & Ratio | | | | | |
| Revenue Gth (%) | 15.1 | (13.3) | 16.0 | 7.6 | 1.4 |
| N Property Inc Gth (%) | 14.6 | (15.7) | 14.6 | 7.5 | 1.5 |
| Net Inc Gth (%) | 7.4 | (26.8) | 41.4 | 10.9 | 2.5 |
| Dist. Payout Ratio (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Net Prop Inc Margins (%) | 80.5 | 78.3 | 77.3 | 77.3 | 77.3 |
| Net Income Margins (%) | 41.3 | 34.9 | 42.5 | 43.8 | 44.3 |
| Dist to revenue (%) | 58.9 | 64.3 | 53.7 | 55.1 | 55.4 |
| Managers & Trustee's fees | 6.9 | 7.4 | 5.9 | 6.2 | 6.0 |
| ROAE (%) | 4.0 | 2.7 | 3.7 | 4.1 | 4.2 |
| ROA (%) | 2.4 | 1.5 | 2.0 | 2.3 | 2.3 |
| ROCE (%) | 3.3 | 2.5 | 3.0 | 3.3 | 3.3 |
| Int. Cover (x) | 4.2 | 3.5 | 3.8 | 4.0 | 4.1 |

Normalization of earnings

Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Quarterly / Interim Income Statement (\$\$m)

| FY Mar | 4Q2019 | 1Q2020 | 2Q2020 | 3Q2020 | 4Q2020 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Gross revenue | 104 | 105 | 106 | 67.3 | 76.8 |
| Property expenses | (20.0) | (19.8) | (20.8) | (16.5) | (19.9) |
| Net Property Income | 84.0 | 85.0 | 84.7 | 50.8 | 56.9 |
| Other Operating expenses | (7.6) | (7.2) | (7.1) | (5.8) | (6.0) |
| Other Non Opq (Exp)/Inc | 1.12 | (0.2) | 0.21 | 3.63 | (2.6) |
| Associates & JV Inc | 0 | 0 | 0 | 0 | 0 |
| Net Interest (Exp)/Inc | (17.9) | (17.9) | (18.5) | (18.1) | (18.3) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | 59.6 | 59.8 | 59.4 | 30.5 | 30.0 |
| Tax | (31.8) | (10.8) | (10.4) | (5.0) | (11.2) |
| Minority Interest | (0.2) | (0.1) | (0.1) | (0.1) | (0.4) |
| Net Income after Tax | 27.7 | 48.9 | 48.9 | 25.4 | 18.4 |
| Total Return | 493 | 48.9 | 48.9 | 25.4 | 0.46 |
| Non-tax deductible Items | 34.4 | 13.2 | 12.9 | 2.18 | 42.8 |
| Net Inc available for Dist. | 62.1 | 62.0 | 61.7 | 53.4 | 50.3 |
| Growth & Ratio | | | | | |
| Revenue Gth (%) | (2) | 1 | 1 | (36) | 14 |
| N Property Inc Gth (%) | (1) | 1 | 0 | (40) | 12 |
| Net Inc Gth (%) | (44) | 77 | 0 | (48) | (28) |
| Net Prop Inc Margin (%) | 80.7 | 81.1 | 80.3 | 75.5 | 74.1 |
| Dist. Payout Ratio (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Balance Sheet (\$\$m)

| FY Mar | 2019A | 2020A | 2021F | 2022F | 2023F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Investment Properties | 7,613 | 8,351 | 8,361 | 8,371 | 8,382 |
| Other LT Assets | 13.3 | 7.53 | 7.53 | 7.53 | 7.53 |
| Cash & ST Invt | 180 | 209 | 165 | 130 | 124 |
| Inventory | 0.67 | 0.64 | 0.64 | 0.64 | 0.64 |
| Debtors | 9.32 | 17.7 | 9.57 | 10.3 | 10.4 |
| Other Current Assets | 5.50 | 2.02 | 2.02 | 2.02 | 2.02 |
| Total Assets | 7,820 | 8,587 | 8,545 | 8,521 | 8,526 |
| ST Debt | 288 | 353 | 353 | 353 | 353 |
| Creditor | 93.2 | 150 | 103 | 108 | 108 |
| Other Current Liab | 32.4 | 39.3 | 39.3 | 39.3 | 39.3 |
| LT Debt | 2,580 | 3,020 | 3,025 | 2,995 | 3,000 |
| Other LT Liabilities | 237 | 295 | 295 | 295 | 295 |
| Unit holders' funds | 4,585 | 4,722 | 4,722 | 4,722 | 4,722 |
| Minority Interests | 4.68 | 9.12 | 9.62 | 10.1 | 10.6 |
| Total Funds & Liabilities | 7,820 | 8,587 | 8,545 | 8,521 | 8,526 |
| Non-Cash Wkg. Capital | (110) | (169) | (130) | (135) | (134) |
| Net Cash/(Debt) | (2,688) | (3,164) | (3,212) | (3,217) | (3,228) |
| Ratio | | | | | |
| Current Ratio (x) | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Quick Ratio (x) | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Aggregate Leverage (%) | 36.7 | 39.3 | 39.5 | 39.3 | 39.3 |
| Z-Score (X) | 0.6 | 0.4 | 0.5 | 0.5 | 0.5 |

Gearing to head up to 41%

Source: Company, DBS Bank

Mapletree North Asia Commercial Trust

Cash Flow Statement (\$m)

| FY Mar | 2019A | 2020A | 2021F | 2022F | 2023F |
|----------------------------|--------------|--------------|---------------|---------------|---------------|
| Pre-Tax Income | 231 | 162 | 215 | 236 | 242 |
| Dep. & Amort. | 3.49 | 4.24 | 3.49 | 3.49 | 3.49 |
| Tax Paid | (28.4) | (37.5) | (40.1) | (42.2) | (43.1) |
| Associates & JV Inc/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Chg in Wkg.Cap. | (0.2) | 0.79 | (39.0) | 4.87 | (0.7) |
| Other Operating CF | 103 | 156 | 43.1 | 47.1 | 46.9 |
| Net Operating CF | 309 | 285 | 183 | 250 | 249 |
| Net Invnt in Properties | (736) | (479) | (10.3) | (11.1) | (11.2) |
| Other Invnts (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Invnts 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 | (0.1) | 2.94 | 0.0 | 0.0 | 0.0 |
| Net Investing CF | (737) | (476) | (10.3) | (11.1) | (11.2) |
| Distribution Paid | (285) | (213) | (221) | (244) | (249) |
| Chg in Gross Debt | 463 | 382 | 5.00 | (30.0) | 5.00 |
| New units issued | 325 | 145 | 0.0 | 0.0 | 0.0 |
| Other Financing CF | (76.1) | (92.9) | 0.0 | 0.0 | 0.0 |
| Net Financing CF | 426 | 221 | (216) | (274) | (244) |
| Currency Adjustments | (1.6) | 2.22 | 0.0 | 0.0 | 0.0 |
| Chg in Cash | (2.8) | 32.6 | (43.3) | (35.2) | (6.0) |

Operating CFPS (\$ cts)

10.3

8.91

6.88

7.53

7.61

Free CFPS (\$ cts)

(14.2)

(6.1)

5.35

7.34

7.25

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: | 30 Sep 19 | 1.32 | 1.65 | BUY |
| 2: | 29 Oct 19 | 1.27 | 1.60 | BUY |
| 3: | 11 Nov 19 | 1.23 | 1.60 | BUY |
| 4: | 06 Dec 19 | 1.18 | 1.30 | BUY |
| 5: | 21 Jan 20 | 1.24 | 1.35 | BUY |
| 6: | 03 Apr 20 | 0.77 | 1.05 | BUY |
| 7: | 04 May 20 | 0.90 | 1.05 | BUY |
| 8: | 05 May 20 | 0.90 | 1.05 | BUY |
| 9: | 28 Jul 20 | 0.88 | 1.05 | BUY |

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

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: 28 Sep 2020 08:26:04 (SGT)

Dissemination Date: 28 Sep 2020 08:42:08 (SGT)

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

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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.
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6. Su Shan TAN, a member of DBS Group Management Committee, is a Director of Mapletree North Asia Commercial Trust as of 02 Sep 2020.


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