

Singapore Company Update

Manulife US Real Estate Inv

Bloomberg: MUST SP | Reuters: MANU.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2021

BUY

Last Traded Price (8 Feb 2021): US\$0.710 (STI : 2,931.40)
Price Target 12-mth: US\$0.90 (27% upside) (Prev US\$1.00)

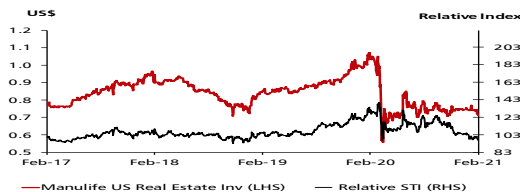
Analyst

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What's New

- 2H20 / FY20 DPU declines party due to lower NPI and provision for expected credit losses
- Key positives: i) expresses interest to expand into other asset classes, such as business parks, to acquire at least 20% of high-growth tenants, ii) healthy rental collections and low rental relief
- Key negatives: i) occupancies declined in all assets except Capitol, ii) rental reversions moderated to +0.1% due to mark-to-market leases
- Maintain BUY; lower TP to US\$0.90

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2019A	2020A	2021F	2022F
Gross Revenue	178	194	200	209
Net Property Inc	111	116	129	135
Total Return	47.6	(43.3)	83.3	88.6
Distribution Inc	83.3	89.0	95.2	100
EPU (US cts.)	3.03	(2.7)	5.20	5.47
EPU Gth (%)	(40)	nm	nm	5
DPU (US cts.)	5.96	5.64	5.95	6.19
DPU Gth (%)	7	(5)	5	4
NAV per shr (US cts.)	80.2	73.1	72.3	71.5
PE (X)	23.4	nm	13.6	13.0
Distribution Yield (%)	8.4	7.9	8.4	8.7
P/NAV (x)	0.9	1.0	1.0	1.0
Aggregate Leverage (%)	37.7	41.0	41.1	41.5
ROAE (%)	4.1	(3.6)	7.2	7.6

Distn. Inc Chng (%): (3) (3)
Consensus DPU (US cts.): 6.1 6.1
Other Broker Recs: B: 8 S: 0 H: 2

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

Keenly eyeing business parks

Investment Thesis

Attractive yield spread with Fed rates remaining low for longer. Trades at c.8% yield and 1x P/NAV, yield spread remains favourable with Fed rates expected to stay low for longer.

A better playing field post index inclusion. MUST is now placed on a better playing field post index inclusion in the FTSE EPRA Nareit Developed Asia Index.

Healthy operational metrics despite lockdown and low expiring leases. Operational metrics (occupancy and rent collections) remain healthy despite lockdown and low expiring leases in FY21F reduce risks.

Valuation:

We lower our DCF-backed TP to US\$0.90 from US\$1.00, lowering our occupancy assumptions. We have not factored in any potential acquisitions in our estimates.

Where we differ:

A better playing field post index inclusion. MUST is now placed on a better playing field post index inclusion in the FTSE EPRA Nareit Developed Asia Index where it will likely herald a virtuous cycle of greater investor visibility. Following this, we have already seen higher trading liquidity and yield compression for MUST. Given its strong execution and acquisition track record, we believe MUST will continue to command a premium over its peers.

Key Risks to Our View:

Slower-than-expected economic recovery and potential multiple waves of COVID-19. In this situation, it would impact businesses that may cause rising risks of vacancies.

Non-renewal of leases. MUST's financials, operations and capital growth may be adversely affected by bankruptcy, insolvency, or downturn in the businesses of its tenants, which may lead to non-renewal of their leases.

At A Glance

Issued Capital (m shrs)	1,583
Mkt. Cap (US\$m/US\$m)	1,124 / 1,124
Major Shareholders (%)	
Manulife Financial Corp	5.5
Prudential PLC	5.0
Free Float (%)	40.5
3m Avg. Daily Val (US\$m)	2.6
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

WHAT'S NEW

Keenly eyeing business parks

DPU decline partly due to lower NPI and provision for expected credit losses; NAV decreases to US\$0.70

- 2H20 DPU fell 11% y-o-y to 2.59 UScts, partly due to lower NPI (-8% y-o-y) and provision for expected credit losses largely from retail trade and F&B tenants. We understand that the retail tenant has indicated that they will be paying back in full in FY21.
- FY20 DPU declined 5.4% y-o-y to 5.64 UScts, vs our estimates of 5.83 UScts.
- 2H20 revenue grew 1.2% y-o-y partially due to contributions from its latest acquisition of Capitol but offset by lower occupancies at Michelson and Peachtree.
- 2H20 NPI declined 8.2% y-o-y. All assets saw NPI y-o-y declines except Centrepont (+2% y-o-y) and Capitol which was acquired in Oct 2019. Key assets (Figueroa, Michelson, Peachtree and Exchange) saw y-o-y declines ranging from 16-26%.
- Gearing inched up to 41% vs 40% in 3Q20. Average cost of debt decreased to 3.18% vs 3.21% in 3Q20.
- NAV declined further to US\$0.70 vs US\$0.73 in 2Q20 and US\$0.79 UScts in 4Q19, due to a 2% drop in asset valuation vs the last valuation in Jun 2020.

Key Highlights

(-) Portfolio occupancy declined further from all assets except Capitol; key assets saw larger h-o-h declines

- Portfolio occupancy shrunk 0.9ppt q-o-q to 93.4% (vs 2Q20 at 96.2%).
- All assets saw a decline in occupancy except Capitol which was relatively stable. Key assets saw larger h-o-h declines include Michelson (-5.7ppts), Peachtree (-7.9ppts) and Centrepont (-7ppts).
- Management said that most of the vacancies were decisions that were made prior to COVID-19 and likely to be unrelated to the outbreak. However, the pandemic has slowed down leasing activities to backfill these vacancies, extending the period of transitional vacancies.
- Subleasing remains low at 3.3% of NLA, -29% y-o-y (4.8% including tenant requests). The sublease markets in MUST's cities, ranging from 6.4%-21% of NLA, still fare lower compared to that of key gateway cities which range from 28-32%.

(-) Rental reversions moderated to +0.1% on leases that were marked to market.

- Rental reversions moderated to +0.1% vs 7.9% in 9M20, largely due to mark-to-market leases. Excluding leases that were marked to market, rental reversions recorded was +4.7%.
- Management expects rental reversions to be moderate in FY21F.

(+) Healthy rental collections; minimal impact from rental relief and deferment; repayment has started for deferred rents.

- Rental collections remained healthy at 94% in 4Q20 and 97% in FY20.
- In FY20, there was minimal impact from rental relief and deferment at 0.5% of NPI and 0.6% of NLA (in 4Q20) respectively.

(-) Portfolio valuation shrunk by 2% vs Jun 2020; key assets saw significant declines.

- Portfolio valuation declined by 2% vs Jun 2020. All assets saw declines except Capitol.
- Assets which saw more significant declines were from Figueroa (-2.8% h-o-h), Michelson (-4.8% h-o-h), Peachtree (-1.3% h-o-h), Exchange (-1.5% h-o-h) and Phipps (-1.4% h-o-h).
- Portfolio cap rates remained stable, but we note some expansion in cap rates (largest expansion was Phipps at 6.5% from 5.4%) but this was offset by some compression in Figueroa, Michelson, Exchange and Capitol.

(+) Looking to expand into other asset classes to acquire at least 20% high-growth tenants typically in business parks; open to JVs / M&A

- Management has indicated interest to expand its range of asset classes to acquire and capture at least 20% of high-growth tenants such as tech and healthcare tenants that are largely located in business parks and suburban offices.
- Management believes that the suburban offices, which have been more resilient amid the ongoing decentralisation trend as they are more affordable and provide a better live-work-play environment for the workforce, could be a good addition to the portfolio.
- Management also highlights that it is open to JVs / M&A as it looks for entry opportunities into good-quality assets.

Manulife US Real Estate Inv

Maintain BUY; lower TP to S\$0.90. We maintain our BUY rating but lower our TP to US\$0.90 from US\$1.00. We reduce our FY21F and FY22F DI estimates by 3% to factor in lower occupancies in the portfolio as seen in the recent results.

Despite potential headwinds ahead, we believe MUST will be back on track as we look forward to a return to normalcy as vaccines are widely distributed in the US and globally.

Company Background

Manulife US REIT (MUST) is the first pure-play US office REIT listed in Asia. Its portfolio consists of eight freehold, Class A or Trophy-quality office properties in Atlanta, Los Angeles, New Jersey, Washington DC, Virginia and Orange County.

Key highlights of FY20 results

Summary of Results	2H2020	2H2019	% y-o-y	1H2020	% h-o-h	FY2020	FY2019	% y-o-y
Revenue	95.7	94.5	1.2%	98.6	-3.0%	194.3	177.9	9.3%
NPI	53.7	58.4	-8.2%	62.2	-13.7%	115.8	110.8	4.6%
DI	41.0	43.4	-5.5%	48.0	-14.6%	89.0	83.3	6.8%
DPU (est)	2.59	2.92	-11.3%	3.05	-15.1%	5.64	5.96	-5.4%

Key Operational Highlights	4Q2020	4Q2019	% y-o-y	3Q2020	% q-o-q
Portfolio occupancies	93.4%	95.8%	-2.4 ppt	94.3%	-0.9 ppt
Rental reversions (cumulative)	0.1%	12.1%	-12 ppt	7.9%	-7.8 ppt
WALE (years)	5.3	5.9	(0.6)	5.5	(0.2)
Gearing	41.0%	37.7%	3.3 ppt	39.9%	1.1 ppt
Average cost of debt*	3.18%	3.37%	-0.2 ppt	3.21%	0 ppt
DSCR	3.5	3.8	(0)	3.7	(0.2)
Leases expiring in FY2021	5.8%	7.2%	-1.4 ppt	6.7%	-0.9 ppt
Leases expiring in FY2022	17.8%	16.8%	1 ppt	17.4%	0.4 ppt

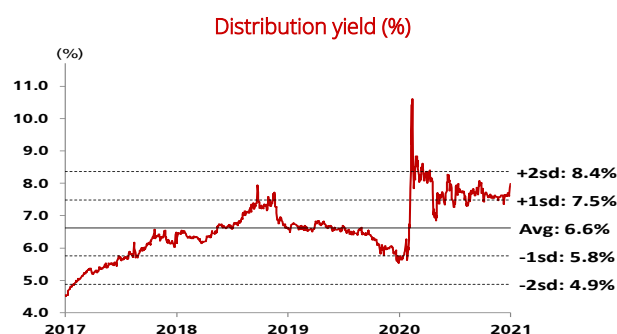
Source: Company, DBS Bank

Interim Income Statement (US\$m)

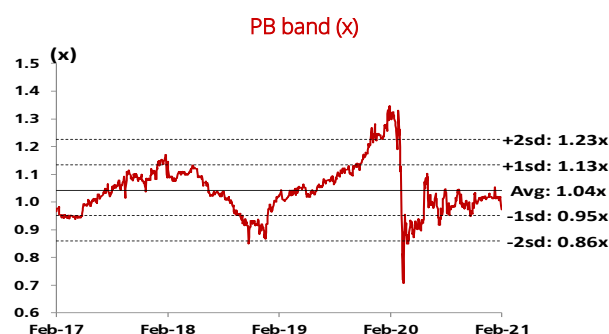
FY Dec	2H2019	1H2020	2H2020	% chg yoy	% chg hoh
Gross revenue	94.5	98.6	95.7	1.2	(3.0)
Property expenses	(36.1)	(36.5)	(42.0)	16.5	15.3
Net Property Income	58.4	62.2	53.7	(8.2)	(13.7)
Other Operating expenses	(7.0)	(6.6)	(5.2)	(25.4)	(22.0)
Other Non Opg (Exp)/Inc	(0.2)	(14.1)	2.20	nm	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(13.8)	(14.7)	(14.9)	(7.6)	(1.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	37.5	26.8	35.8	(4.5)	33.7
Tax	(7.9)	15.0	7.74	nm	(48.3)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	29.5	41.7	43.5	47.3	4.3
Total Return	30.9	(35.6)	(7.7)	nm	(78.5)
Non-tax deductible Items	13.8	6.25	(2.5)	nm	nm
Net Inc available for Dist.	43.4	48.0	41.0	(5.5)	(14.6)
Ratio (%)					
Net Prop Inc Margin	61.8	63.0	56.1		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



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



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

Income Statement (US\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Gross revenue	145	178	194	200	209
Property expenses	(53.9)	(67.1)	(78.5)	(71.2)	(74.1)
Net Property Income	90.7	111	116	129	135
Other Operating expenses	(9.3)	(12.4)	(11.8)	(13.5)	(13.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(19.0)	(25.7)	(29.6)	(30.9)	(31.4)
Exceptional Gain/(Loss)	16.9	(14.6)	(140)	0.0	0.0
Net Income	79.2	58.0	(66.0)	84.2	89.5
Tax	(14.7)	(10.5)	22.7	(0.8)	(0.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	64.5	47.6	(43.3)	83.3	88.6
Total Return	64.5	47.6	(43.3)	83.3	88.6
Non-tax deductible Items	6.46	35.8	132	11.9	11.7
Net Inc available for Dist.	71.0	83.3	89.0	95.2	100
Growth & Ratio					
Revenue Gth (%)	57.1	23.0	9.3	2.8	4.5
N Property Inc Gth (%)	55.4	22.2	4.6	11.0	4.8
Net Inc Gth (%)	11.3	(26.3)	nm	nm	6.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	62.7	62.3	59.6	64.4	64.5
Net Income Margins (%)	44.6	26.7	(22.3)	41.7	42.4
Dist to revenue (%)	49.1	46.9	45.8	47.6	48.0
Managers & Trustee's fees	6.5	7.0	6.1	6.8	6.7
ROAE (%)	6.7	4.1	(3.6)	7.2	7.6
ROA (%)	4.1	2.4	(2.0)	4.0	4.2
ROCE (%)	4.5	4.4	5.3	5.9	6.2
Int. Cover (x)	4.3	3.8	3.5	3.7	3.8

Source: Company, DBS Bank

Quarterly Income Statement (US\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	40.5	40.0	43.3	45.7	48.8
Property expenses	(15.0)	(14.9)	(16.1)	(17.6)	(18.5)
Net Property Income	25.5	25.1	27.3	28.1	30.3
Other Operating	(2.4)	(2.6)	(2.9)	(2.8)	(4.1)
Other Non Opg (Exp)/Inc	0.0	0.0	(0.9)	0.0	1.56
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(5.8)	(5.8)	(6.1)	(6.7)	(7.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	17.3	16.8	17.3	18.6	20.6
Tax	(4.8)	(2.6)	0.07	(2.9)	(5.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	12.5	14.1	17.4	15.7	15.6
Total Return	20.5	13.7	2.92	13.0	17.9
Non-tax deductible Items	(0.9)	5.62	17.7	7.73	4.73
Net Inc available for Dist.	19.6	19.3	20.6	20.8	22.6
Growth & Ratio					
Revenue Gth (%)	0	(1)	8	6	7
N Property Inc Gth (%)	1	(2)	9	3	8
Net Inc Gth (%)	(13)	13	23	(10)	0
Net Prop Inc Margin (%)	62.9	62.7	62.9	61.5	62.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

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Interim Income Statement (US\$m)

FY Dec	1H2019	2H2019	1H2020	2H2020
Gross revenue	83.3	94.5	98.6	95.7
Property expenses	(31.0)	(36.1)	(36.5)	(42.0)
Net Property Income	52.3	58.4	62.2	53.7
Other Operating	(5.5)	(7.0)	(6.6)	(5.2)
Other Non Opg (Exp)/Inc	(0.9)	(0.2)	(14.1)	2.20
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(11.9)	(13.8)	(14.7)	(14.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	34.1	37.5	26.8	35.8
Tax	(2.6)	(7.9)	15.0	7.74
Minority Interest	0.0	0.0	0.0	0.0
Net Income after Tax	14.1	29.5	41.7	43.5
Total Return	16.6	30.9	(35.6)	(7.7)
Non-tax deductible Items	8.43	13.8	6.25	(2.5)
Net Inc available for Dist.	40.0	43.4	48.0	41.0
Growth & Ratio				
Revenue Gth (%)	N/A	13	4	(3)
N Property Inc Gth (%)	nm	12	6	(14)
Net Inc Gth (%)	nm	(6)	41	4
Net Prop Inc Margin (%)	62.8	61.8	63.0	56.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Balance Sheet (US\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Investment Properties	1,739	2,095	1,993	2,009	2,027
Other LT Assets	0.0	0.49	0.0	0.0	0.0
Cash & ST Invt	54.1	60.7	86.7	95.1	94.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	9.07	7.61	6.93	8.55	8.94
Other Current Assets	1.00	2.61	1.66	1.66	1.66
Total Assets	1,803	2,166	2,088	2,114	2,132
ST Debt	110	78.9	234	234	234
Creditor	16.8	26.9	18.1	30.2	31.5
Other Current Liab	2.15	5.10	6.88	6.88	6.88
LT Debt	557	733	619	633	649
Other LT Liabilities	52.6	64.3	52.9	52.9	52.9
Unit holders' funds	1,064	1,258	1,158	1,158	1,158
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,803	2,166	2,088	2,114	2,132
Non-Cash Wkg. Capital	(8.9)	(21.7)	(16.4)	(26.8)	(27.8)
Net Cash/(Debt)	(613)	(751)	(766)	(771)	(788)
Ratio					
Current Ratio (x)	0.5	0.6	0.4	0.4	0.4
Quick Ratio (x)	0.5	0.6	0.4	0.4	0.4
Aggregate Leverage (%)	37.2	37.7	41.0	41.1	41.5
Z-Score (X)	1.1	1.0	1.0	1.0	1.0

Source: Company, DBS Bank

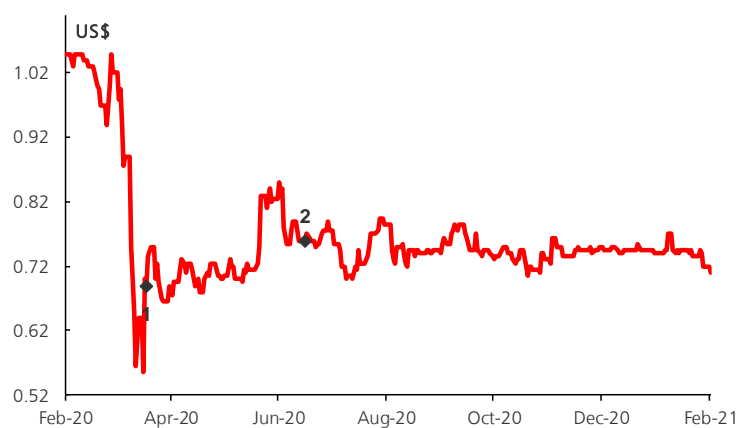
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Cash Flow Statement (US\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	62.3	72.6	74.4	84.2	89.5
Dep. & Amort.	0.0	0.0	(0.7)	0.0	0.0
Tax Paid	(0.3)	(1.2)	(1.9)	(0.8)	(0.9)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	8.89	(35.9)	19.0	10.5	0.98
Other Operating CF	(8.3)	50.6	(8.8)	11.9	11.7
Net Operating CF	62.6	86.2	82.0	106	101
Net Invnt in Properties	(399)	(356)	(24.2)	(2.0)	(2.1)
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	0.21	0.47	0.17	(14.2)	(15.8)
Net Investing CF	(399)	(356)	(24.0)	(16.2)	(17.9)
Distribution Paid	(58.7)	(99.4)	(70.7)	(95.2)	(100)
Chg in Gross Debt	208	143	38.6	14.2	15.8
New units issued	193	232	0.0	0.0	0.0
Other Financing CF	(0.7)	0.0	0.0	0.0	0.0
Net Financing CF	341	276	(32.2)	(81.0)	(84.5)
Currency Adjustments	0.0	0.01	0.05	0.0	0.0
Chg in Cash	4.42	6.66	25.9	8.46	(1.1)
Operating CFPS (US cts.)	4.21	7.78	3.98	5.95	6.19
Free CFPS (US cts.)	(26.4)	(17.2)	3.66	6.47	6.13

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Mar 20	0.69	1.15	BUY
2:	23 Jun 20	0.76	1.00	BUY

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

Source: DBS Bank

Analyst: Rachel TAN

Derek 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

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

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