



CHINA  
DEVELOPMENT  
FINANCIAL

# Manulife US REIT (MUST SP/MANU.SI)

## BUY - Maintain

Price as of 2 May 2018	0.95
12M target price (US\$)	1.02
Previous target price (US\$)	1.01
Upside, incl. div (%)	13.8

## Trading data

Mkt Cap (S\$m) / (US\$m)	1,312 / 984
Issued Shares (m)	1,036
(3-Month) Vol / Val	1.6m / \$1.5m
52 week lo / hi	\$0.77 / \$0.99
Free Float	91.6%

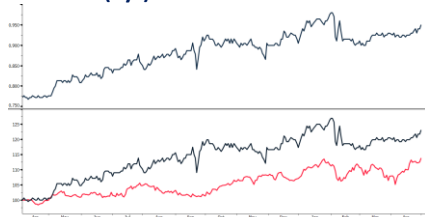
## Major Shareholders

Manulife Financial Corp	5.3%
DBS Group Holdings	4.0%

## Previous Recommendations

Date	Rating	Share Price (US\$)	Target Price (US\$)
20-Feb-18	BUY	0.92	1.01
17-Apr-18	BUY	0.93	1.01

## MUST SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

## 1Q18 results above estimates, albeit lower DPU YoY

### Event

**Positive 1Q18 results.** Manulife US REIT (MUST) reported 1Q18 distributable income of S\$15.6mn (+50% YoY), exceeding our forecast of S\$15.3mn. This was mainly driven by higher gross revenue (+57% YoY), contributing to higher Net Property Income (NPI) of S\$19.7mn (+54% YoY). DPU (adjusted for rights issue), however, declined slightly (-0.7% YoY).

### Impact

**Lower DPU on lower occupancy rate.** The lower DPU was a result of two main reasons. (1) Dip in income from Figueroa and Michelson resulting from lower occupancies and higher income taxes in these properties, compared to 1Q17. The effect of this was, however, cushioned by stronger earnings contribution from Plaza and Exchange, which were acquired in July and October 2017, respectively. (2) Effect of an enlarged share base from the Rights Issue in October 2017.

**Portfolio statistics still robust.** MUST's portfolio occupancy remained robust at 95.8% (as at 1Q18) with less than 10.0% of leases, by NLA, expiring between 2018 and 2020. The overall Weighted Average Lease Expiry (WALE), by NLA, stands at 5.7 years, with 56.3% of the leases, by NLA, expiring in 2023 and beyond. We noted that gross gearing stands at 34% with a debt maturity of 3.2 years and 99.8% of its interest rate exposure fixed (as at 1Q18).

### Valuation & Action

**Maintained BUY with revised target price of US\$1.02.** We raised our target price marginally as we revised 2018/19/20F DPU upwards to 6.1/6.9/7.7 US cents. We also made slight revisions to our risk free rate assumption, from 2.30% to 2.54% and cost of equity assumption, from 9.30% to 9.54%. As highlighted in our 17 April 2018 report, we continue to wait for further clarity on the final decision regarding the financing mix of Penn and Phipps, as well as the actual impact on DPU. MUST currently enjoys a 2018F and 2019F dividend yield of 6.5% and 7.3%, respectively.

### Risks

Main risks include a faster-than-expected rate hike in the US, which could have a negative impact on the REIT in the medium term (currently 99.8% of debt is fixed), and unfavourable demand and supply dynamics in the respective micro-markets, which would have a direct impact on market rents.

### Financials & Key Operating Statistics

YE Dec USD mn	2016	2017	2018F	2019F	2020F
Gross revenue	47.5	92.0	111.7	128.4	144.9
Net property income	30.0	58.4	70.3	80.9	91.3
Distributable income	22.3	46.7	62.9	71.1	79.3
DPU (US cents)	3.6	5.8	6.1	6.9	7.7
DPS growth (%)	-	62.5	5.3	13.2	11.5
Div Yield (%)	4.7	6.4	6.5	7.3	8.2
NAV (USD)	87.0	82.0	111.1	112.9	115.0
Price / Book (x)	0.9	1.1	0.8	0.8	0.8
NPI Margin (%)	63.1	63.4	63.0	63.0	63.0
Net Margin (%)	108.8	63.0	37.1	38.0	38.7
Gearing (%)	33.6	33.5	33.2	32.8	32.4
ROE (%)	9.4	6.8	4.8	5.6	6.3

Source: Company Data, KGI Research

## Results updates

**Figure 1: Results comparison**

FYE Dec (USD mn)	1QFY18	1QFY17	yoy % chg	4QFY17	qoq % chg	FY19F	Comments
Gross revenue	31.2	19.8	57.1	29.3	6.5	128.4	Mainly attributed to contributions from the acquisitions of Plaza and Exchange
Property expenses	(11.5)	(7.1)	62.7	(10.8)	6.1	(47.5)	
<b>Net property income</b>	<b>19.7</b>	<b>12.8</b>	<b>54.0</b>	<b>18.4</b>	<b>6.7</b>	<b>80.9</b>	
NPI margin (%)	63%	64%		63%		63%	
REIT Manager's fees	(1.6)	(1.0)	50.1	(1.5)	6.8	(7.2)	Due to incremental borrowings to fund Plaza and Exchange acquisitions
REIT Trustee's fees	(0.1)	(0.0)	43.2	(0.1)	0.0	(0.2)	
Net interest expense	(3.7)	(1.9)	92.1	(3.2)	15.9	(9.5)	
Other expenses	(0.5)	(0.3)	54.1	(0.6)	(24.0)	(2.3)	
<b>Net profit/(loss)</b>	<b>13.8</b>	<b>9.4</b>	<b>46.6</b>	<b>13.0</b>	<b>6.0</b>	<b>61.7</b>	
Change in FV - invt ppt	(0.9)	(0.6)	59.5	13.0	nm	0.0	Due to straight line rent accounting adjustment
<b>Total return before tax</b>	<b>12.9</b>	<b>8.8</b>	<b>45.7</b>	<b>26.0</b>	<b>(50.6)</b>	<b>61.7</b>	
Income tax	(1.3)	(0.3)	311.4	(7.1)	(81.2)	(13.0)	
<b>Total return after tax</b>	<b>11.5</b>	<b>8.5</b>	<b>35.6</b>	<b>18.9</b>	<b>(39.1)</b>	<b>48.7</b>	
Income avail for distribution	15.6	10.4	50.1	14.6	6.8	71.1	Due to higher NPI
DPU (cents)	1.51	1.52	(0.7)	1.42	6.3	6.9	

Source: Company Data, KGI Research

**Figure 2: DDM valuation**

USD cents, YE 31 December	FY17	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
<b>DPU</b>	5.8	6.1	6.9	7.7	7.9	8.1	8.3	8.5	8.7
YoY (%)		5.3%	13.2%	11.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Terminal value per unit</b>									126.3
Cost of Equity		9.54%							
<b>Target Price (US\$)</b>		<b>1.02</b>							
Upside/(Downside)		8.6%							

Source: KGI Research

**Figure 3: Local peers**

Company Name	Last Price	Currency Adj. Market Cap (US\$ m)	Gearing (%)	Dividend yield (%)		P/B (x)		6M Average daily trading volume (S\$ '000)	(YTD) Price Performance
				FY17	FY18F	FY17	FY18F		
<b>Manulife US REIT</b>	<b>USD 0.95</b>	<b>984.3</b>	<b>35.0%</b>	<b>6.4%</b>	<b>6.4%</b>	<b>1.1</b>	<b>1.1</b>	<b>2,186.5</b>	<b>5.0%</b>
<b>Singapore Listed Office REITs</b>									
Capitaland Commercial Trust	SGD 1.81	4,903.4	29.8%	4.5%	4.9%	1.1	1.0	23,633.1	-6.2%
Suntec REIT	SGD 1.94	3,876.6	35.9%	4.7%	5.2%	1.0	0.9	13,709.6	-9.8%
Keppel REIT	SGD 1.21	3,084.1	33.9%	4.5%	4.9%	0.9	0.9	5,735.0	-4.0%
OUE Commercial REIT	SGD 0.72	828.1	38.6%	6.5%	6.4%	0.8	0.7	173.4	-0.7%
Frasers Commercial Trust	SGD 1.40	926.4	36.7%	7.1%	6.8%	0.9	0.9	2,668.1	-6.0%
<b>Average</b>		<b>2,723.7</b>	<b>35.0%</b>	<b>5.5%</b>	<b>5.6%</b>	<b>0.9</b>	<b>0.9</b>	<b>9,183.8</b>	<b>-5.3%</b>
<b>Median</b>		<b>3,084.1</b>	<b>35.9%</b>	<b>4.7%</b>	<b>5.2%</b>	<b>0.9</b>	<b>0.9</b>	<b>5,735.0</b>	<b>-6.0%</b>

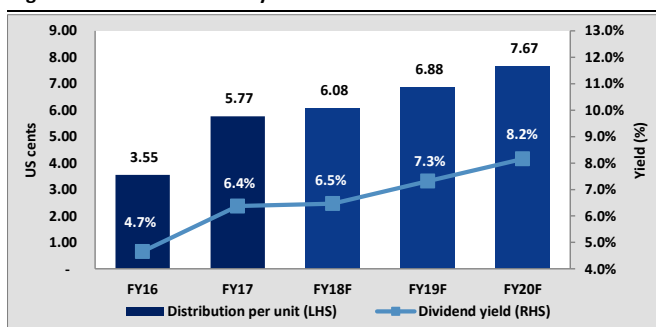
Source: KGI Research

**Figure 4: Company profile**

Manulife US Real Estate Investment Trust (MUST) is a Singapore real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 20 May 2016. Its investment strategy is principally to invest in a portfolio of income-producing office real estate in the US, as well as real estate-related assets. The REIT is managed by Manulife US Real Estate Management Pte. Ltd. (the Manager) which is wholly owned by the Sponsor, The Manufacturers Life Insurance Company (Manulife), part of the Manulife Group. The Sponsor's parent company, Manulife Financial Corporation (MFC), is a leading international financial services group.

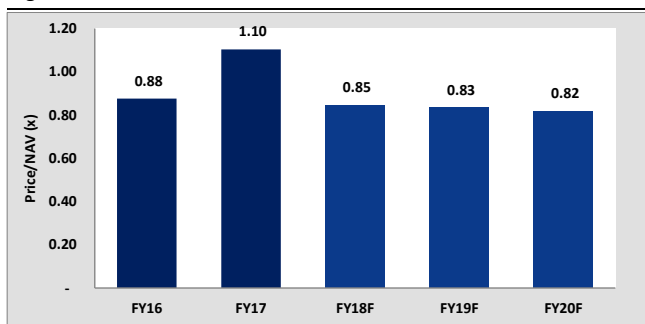
Source: Company

**Figure 6: DPU and Dividend yield**



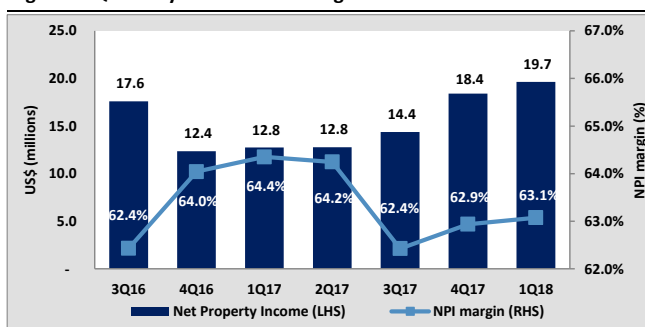
Source: KGI Research

**Figure 5: Price/NAV**



Source: KGI Research

**Figure 7: Quarterly NPI and NPI Margin**



Source: KGI Research

## Financials

FYE 31 December

<b>INCOME STATEMENT (USD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Gross revenue	47.5	92.0	111.7	128.4	144.9
Property expenses	(17.5)	(33.7)	(41.3)	(47.5)	(53.6)
<b>Net property income</b>	<b>30.0</b>	<b>58.4</b>	<b>70.3</b>	<b>80.9</b>	<b>91.3</b>
REIT Manager's fees	(2.2)	(4.7)	(6.3)	(7.2)	(8.1)
REIT Trustee's fees	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Net interest expense	(5.1)	(9.5)	(9.5)	(9.5)	(9.5)
Other expenses	(0.8)	(1.6)	(2.0)	(2.3)	(2.6)
<b>Net profit/(loss)</b>	<b>21.7</b>	<b>42.4</b>	<b>52.4</b>	<b>61.7</b>	<b>70.9</b>
Change in fair value - investment ppty	52.3	31.4	0.0	0.0	0.0
<b>Total return before tax</b>	<b>74.1</b>	<b>73.8</b>	<b>52.4</b>	<b>61.7</b>	<b>70.9</b>
Income tax	(22.4)	(15.8)	(11.0)	(13.0)	(14.9)
Total return after tax	51.7	58.0	41.4	48.8	56.0
Distributable income	22.3	46.7	62.9	71.1	79.3
<b>BALANCE SHEET (USD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Cash and cash equivalents	38.4	49.7	59.5	75.9	94.1
Trade and other receivables	2.3	5.9	7.0	8.1	9.1
Other current assets	0.7	0.8	0.8	0.8	0.8
<b>Total current assets</b>	<b>41.4</b>	<b>56.4</b>	<b>67.3</b>	<b>84.8</b>	<b>104.0</b>
Investment properties	833.8	1,312.8	1,312.8	1,312.8	1,312.8
Intangibles, others	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>875.2</b>	<b>1,369.2</b>	<b>1,380.1</b>	<b>1,397.6</b>	<b>1,416.8</b>
Trade and other payables	9.8	18.2	22.1	25.4	28.6
Other current liabilities	0.2	1.0	1.0	1.0	1.0
<b>Total current liabilities</b>	<b>10.0</b>	<b>19.2</b>	<b>23.1</b>	<b>26.4</b>	<b>29.6</b>
LT Borrowings	294.2	458.4	458.4	458.4	458.4
Other non-current liabilities	24.0	39.5	39.5	39.5	39.5
<b>Total liabilities</b>	<b>328.2</b>	<b>517.1</b>	<b>520.9</b>	<b>524.2</b>	<b>527.5</b>
Unitholders' funds and reserves	547.0	852.1	859.2	873.3	889.3
<b>Total liabilities and equity</b>	<b>875.2</b>	<b>1,369.2</b>	<b>1,380.1</b>	<b>1,397.6</b>	<b>1,416.8</b>
<b>CASH FLOW STATEMENT (USD mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
<b>Total return before tax</b>	<b>74.1</b>	<b>73.8</b>	<b>52.4</b>	<b>61.7</b>	<b>70.9</b>
Depreciation & Amortisation	(3.3)	(3.5)	(3.5)	(3.5)	(3.5)
Other non-cash adjustments	(48.3)	(23.6)	17.8	18.7	19.7
Changes in working capital	(11.4)	(1.9)	2.8	2.3	2.3
Taxes paid	0.0	(1.0)	0.0	0.0	0.0
<b>Cash flows from operations</b>	<b>11.0</b>	<b>43.8</b>	<b>69.5</b>	<b>79.2</b>	<b>89.3</b>
Capital expenditure	(0.5)	(9.3)	0.0	0.0	0.0
Acquisition of investment properties	(758.4)	(425.0)	0.0	0.0	0.0
Other investing cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash flows from investing</b>	<b>(758.9)</b>	<b>(434.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Borrowings raised / (repaid)	296.0	165.9	0.0	0.0	0.0
Equity raised / (bought back)	519.6	288.7	0.0	0.0	0.0
Dividends paid	0.0	(42.5)	(59.6)	(62.9)	(71.1)
Other financing cashflow	(29.3)	(10.4)	0.0	0.0	0.0
<b>Cash flows from financing</b>	<b>786.3</b>	<b>401.7</b>	<b>(59.6)</b>	<b>(62.9)</b>	<b>(71.1)</b>
FX Effects, Others	(0.0)	0.1	0.0	0.0	0.0
<b>Net increase in cash</b>	<b>38.4</b>	<b>11.2</b>	<b>9.8</b>	<b>16.4</b>	<b>18.2</b>
Beginning Cash	0.0	38.4	49.7	59.5	75.9
<b>Ending cash</b>	<b>38.4</b>	<b>49.7</b>	<b>59.5</b>	<b>75.9</b>	<b>94.1</b>
<b>KEY RATIOS</b>	<b>2016A</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
DPU (USD cents)	3.6	5.8	6.1	6.9	7.7
Dividend yield %	4.7	6.4	6.5	7.3	8.2
NAV per share (USD cents)	87.0	82.0	111.1	112.9	115.0
Price/NAV (x)	0.9	1.1	0.8	0.8	0.8
<b>Profitability (%)</b>					
NPI Margin	63.1	63.4	63.0	63.0	63.0
Net Margin	108.8	63.0	37.1	38.0	38.7
ROE	9.4	6.8	4.8	5.6	6.3
ROA	5.9	4.2	3.0	3.5	4.0
<b>Financial Structure (x)</b>					
Interest Coverage	5.3	5.5	6.5	7.5	8.5
Gearing	33.6	33.5	33.2	32.8	32.4

Source: Bloomberg, KGI Research

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<b>Rating</b>	<b>Definition</b>
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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