

Manulife US REIT

(MUST SP/MANU.SI)

3Q19 result updates; AUM passed the US\$2bn mark

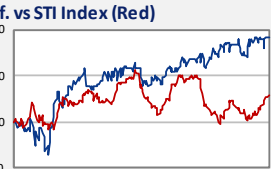
Geraldine Wong / 65 6202 1193 / Geraldine.wong@kqi.com

- **Revenue rose 13.3% YoY.** Incremental contributions came from Centrepointe I&II; the most recently acquired Capitol will start bumping up rents starting from 4Q19.
- **Benchmark inclusion threshold met.** MUST should see inclusion within the FTSE EPRA Nareit Developed Asia Index by Dec 19.
- **Maintain OUTPERFORM.** DPU will likely remain flattish alongside an enlarged units base at 6.3/6.4 US cts for FY20/FY21 (previously 6.3/6.3 US cts); catalyst remains the near-term benchmark inclusion.

Revenue rose 13.3% YoY. Manulife US REIT (MUST) reported a 13.3% YoY and 11.8% YoY jump in gross revenue and NPI to US\$45.7mn and US\$28.1mn respectively. YTD 2019 revenue of US\$129.1mn made up 73.5% of our full year forecast while YTD DPU of 4.52 US cts (3Q19: 1.48 US cts) made up 79.3% of our full year forecast. Topline was supported by incremental contributions from Centrepointe 1&11, which was acquired in May this year. Additional revenue from the most recent acquisition of Capitol (completed 30 Oct) is expected to amount to US\$3.7mn and US\$21.9mn for 4Q19 and FY20, and will bring MUST's AUM to US\$2.1bn (20.4% YoY). We recap that the acquisition was partly funded by debt (c.31%) and equity (c.69%). MUST drew down debt totalling US\$64mn and raised US\$142.7mn through an equity fund raising (EFR) exercise, which comprised of two tranches – private placement of US\$80mn which was 7x covered and preferential offering to raise another US\$62.7mn (52 new units for every 1000 existing units).

Strong leasing momentum YTD. Leasing momentum remained strong this quarter with high-quality tenants signing long leases year to date. A total of c.400k sq ft (10% of the portfolio's leases by NLA) were executed YTD with positive rental reversion. They included 15 new/renewed leases led by tenants from the Finance and Insurance and Legal sectors with long tenures averaging 8.5 years and rental escalations of 2.7% per annum. Organic growth will come from the MUST's blended rental escalation of 1.9% per annum. Only 2.2% and 6.9% of leases by gross rental income will be pending for lease renewal in 4Q19 and FY20 respectively.

Co-working not a threat. Co-working tenants, which is classified as 'real estate sector' tenants within MUST's classification, only made up 1.9% of the REIT's portfolio by GRI. These tenants are present in three properties, namely, Capitol, Centrepointe I&II and Peachtree. Going forward, the management continue to take a positive view on Co-working firms for their growing role in the US office landscape and complimentary use towards existing tenants for business flexibility.

Outperform (Maintain)		Performance (Absolute)	
Price as of 6 Nov 19 (USD)	0.93	1 Month (%)	3.9
12M TP (USD)	1.03	3 Month (%)	7.1
Previous TP (USD)	1.01	12 Month (%)	33.2
Upside, incl div (%)	17.6%		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (USD mn)	1,448		
Issued Shares (mn)	1,565		
Vol - 3M Daily avg (mn)	2.3		
Val - 3M Daily avg (USD mn)	2.1		
Free Float (%)	16.2		
Major Shareholders		Previous Recommendations	
Manulife Financial Corp	6.2%	19-Sep-19	OP US\$1.01
Prudential PLC	5.5%	15-Aug-19	OP US\$0.98
DBS Group Holdings	3.0%	29-Apr-19	OP US\$0.97

Financials & Key Operating Statistics					
YE Dec USD mn	2017	2018	2019F	2020F	2021F
Gross revenue	92.0	144.6	179.2	206.6	210.0
Net property income	58.4	90.7	114.7	132.2	134.4
Distributable income	46.7	71.0	82.4	93.9	95.8
DPU (US cents)	5.8	6.1	6.0	6.3	6.4
DPU growth (%)	64.5	3.6	(1.3)	5.5	2.0
Div Yield (%)	6.5	7.7	6.5	6.8	7.0
NAV (US cents)	82.0	83.4	0.8	0.9	86.9
Price / Book (x)	1.1	0.9	1.1	1.1	1.1
NPI Margin (%)	63.4	64.0	64.0	64.0	64.0
Net Margin (%)	63.0	44.7	28.1	36.7	36.9
Gearing (%)	34.9	38.4	37.7	37.7	37.7
ROE (%)	6.8	6.1	3.8	5.6	5.7

Source: Company Data, KGI Research

Operating statistics. Portfolio WALE stood at 6.0 years, from 6.2 years in 2Q19, due to time decay, while portfolio occupancy improved marginally from 97.2% to 97.3% QoQ. Gearing ratio improved from 37.1% to 36.3% post-acquisition, and remains at a healthy level. Average interest rate reduced from 3.43% to 3.39% following the refinancing of Capitol loan at an attractive rate of 3.04% last month. We see further upside from interest cost savings in the coming 2 years as 8.5%, 27.7% of loans will expire in FY20 and FY21, and may benefit from a lower rate of refinancing.

Benchmark inclusion in Dec 19. As per our previous update, free float market cap after the recent EFR should comfortably meet requirements for index inclusion the next round of review coming Dec 19.

Valuation & Action:

Maintain OUTPERFORM with TP of US\$1.03. We maintain our outperformance recommendation. While fundamentals remain stable, we anticipate higher trading liquidity and institutional interest following the benchmark inclusion towards year end.

Risks:

Finalisation of US tax regulations; foreign exchange risk

Financials

FYE 31 December					
INCOME STATEMENT (USD mn)	2017A	2018A	2019F	2020F	2021F
Gross revenue	92.0	144.6	179.2	206.6	210.0
Property expenses	(33.7)	(53.9)	(64.5)	(74.4)	(75.6)
Net property income	58.4	90.7	114.7	132.2	134.4
REIT Manager's fees	(4.7)	(7.1)	(8.5)	(10.3)	(10.6)
REIT Trustee's fees	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Net interest expense	(9.5)	(19.0)	(25.8)	(25.7)	(25.5)
Other expenses	(1.6)	(2.0)	(2.5)	(2.9)	(2.9)
Net profit/(loss)	42.4	62.3	77.7	93.1	95.1
Change in fair value - investment ppty	31.4	16.9	(15.8)	0.0	0.0
Total return before tax	73.8	79.2	61.9	93.1	95.1
Income tax	(15.8)	(14.7)	(11.4)	(17.2)	(17.6)
Total return after tax	58.0	64.5	50.4	75.9	77.5
Distributable income	46.7	71.0	82.4	93.9	95.8
BALANCE SHEET (USD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	49.7	54.1	86.6	120.7	138.9
Trade and other receivables	5.9	9.1	7.1	8.2	8.3
Other current assets	0.8	1.0	0.6	0.6	0.6
Total current assets	56.4	64.2	94.3	129.5	147.9
Investment properties	1,312.8	1,738.7	2,076.0	2,076.0	2,076.0
Intangibles, others	0.0	0.0	4.5	4.5	4.5
Total assets	1,369.2	1,802.9	2,174.8	2,210.0	2,228.3
Trade and other payables	18.2	16.8	20.1	23.2	23.6
Other current liabilities	1.0	2.2	4.7	4.7	4.7
Total current liabilities	19.2	19.0	24.8	27.9	28.3
LT Borrowings	458.4	667.2	783.6	783.6	783.6
Other non-current liabilities	39.5	52.6	55.2	55.2	55.2
Total liabilities	517.1	738.8	863.6	866.7	867.1
Unitholders' funds and reserves	852.1	1,064.1	1,311.1	1,343.3	1,361.3
Total liabilities and equity	1,369.2	1,802.9	2,174.8	2,210.0	2,228.3
CASH FLOW STATEMENT (USD mn)	2017A	2018A	2019F	2020F	2021F
Total return before tax	73.8	79.2	61.9	93.1	95.1
Depreciation & Amortisation	(3.5)	(3.5)	(2.3)	(2.3)	(2.3)
Other non-cash adjustments	(23.6)	(4.5)	53.6	39.5	39.6
Changes in working capital	(1.9)	(8.3)	4.4	1.2	(0.6)
Taxes paid	(1.0)	(0.3)	0.0	0.0	0.0
Cash flows from operations	43.8	62.7	117.6	131.5	131.9
Capital expenditure	(9.3)	(10.8)	(33.7)	0.0	0.0
Acquisition of investment properties	(425.0)	(388.5)	(319.6)	(15.0)	(15.0)
Other investing cashflow	0.0	0.2	0.2	0.0	0.0
Cash flows from investing	(434.3)	(399.1)	(353.1)	(15.0)	(15.0)
Borrowings raised / (repaid)	165.9	208.9	116.3	0.0	0.0
Equity raised / (bought back)	288.7	196.5	236.1	0.0	0.0
Dividends paid	(42.5)	(58.7)	(82.4)	(82.4)	(98.6)
Other financing cashflow	(10.4)	(5.8)	(2.1)	0.0	0.0
Cash flows from financing	401.7	340.9	267.9	(82.4)	(98.6)
FX Effects, Others	0.1	(0.0)	0.0	0.0	0.0
Net increase in cash	11.2	4.5	32.5	34.1	18.2
Beginning Cash	38.4	49.7	54.1	86.6	120.7
Ending cash	49.7	54.1	86.6	120.7	138.9
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPU (USD cents)	5.8	6.1	6.0	6.3	6.4
Dividend yield %	6.5	7.7	6.5	6.8	7.0
NAV per share (USD cents)	82.0	83.4	0.8	0.9	86.9
Price/NAV (x)	1.1	0.9	1.1	1.1	1.1
Profitability (%)					
NPI Margin	63.4	64.0	64.0	64.0	64.0
Net Margin	63.0	44.7	28.1	36.7	36.9
ROE	6.8	6.1	3.8	5.6	5.7
ROA	4.2	3.6	2.3	3.4	3.5
Financial Structure					
Interest Coverage (x)	5.5	4.2	4.0	4.6	4.7
Gearing (%)	34.9	38.4	37.7	37.7	37.7

Source: KGI Research

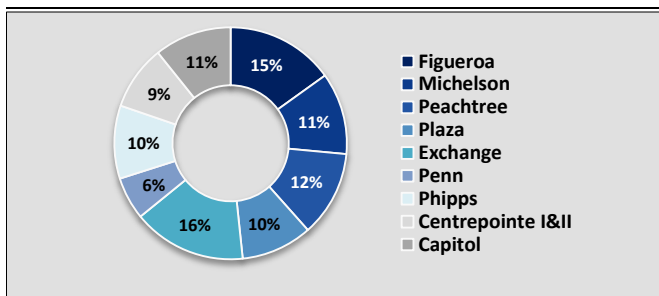
Company Snapshot

Figure 1: 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.

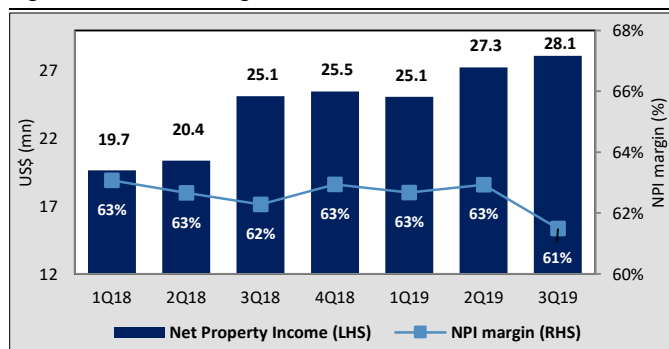
Source: Company

Figure 2: Portfolio breakdown by NLA



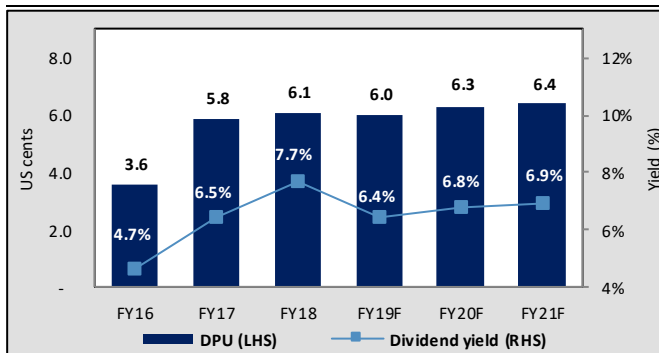
Source: Company Data, KGI Research

Figure 3: NPI and NPI margins



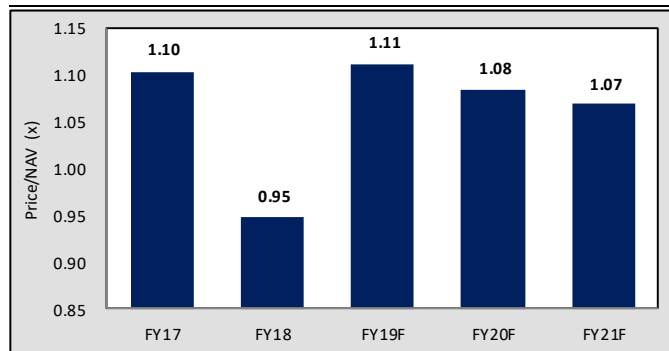
Source: Company Data, KGI Research

Figure 4: DPU and Dividend yield



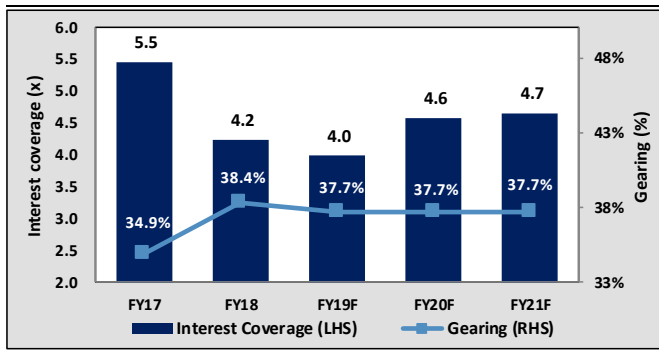
Source: Company Data, KGI Research

Figure 5: Price/NAV



Source: Company Data, KGI Research

Figure 6: Interest Coverage and Gearing Ratio



Source: Company Data, KGI Research

Figure 7: Historical 1 year share price performance against benchmarks



Source: Company Data, KGI Research

Figure 8: Historical P/B band since IPO



Source: Company Data, KGI Research

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2019. KGI Securities (Singapore) Pte. Ltd. All rights reserved.