

Manulife US REIT

2022

Research Reports



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

13 Aug 2021

BUY

Last Traded Price (12 Aug 2021): US\$0.765 (STI : 3,182.80)
Price Target 12-mth: US\$0.88 (15% upside) (Prev US\$0.90)

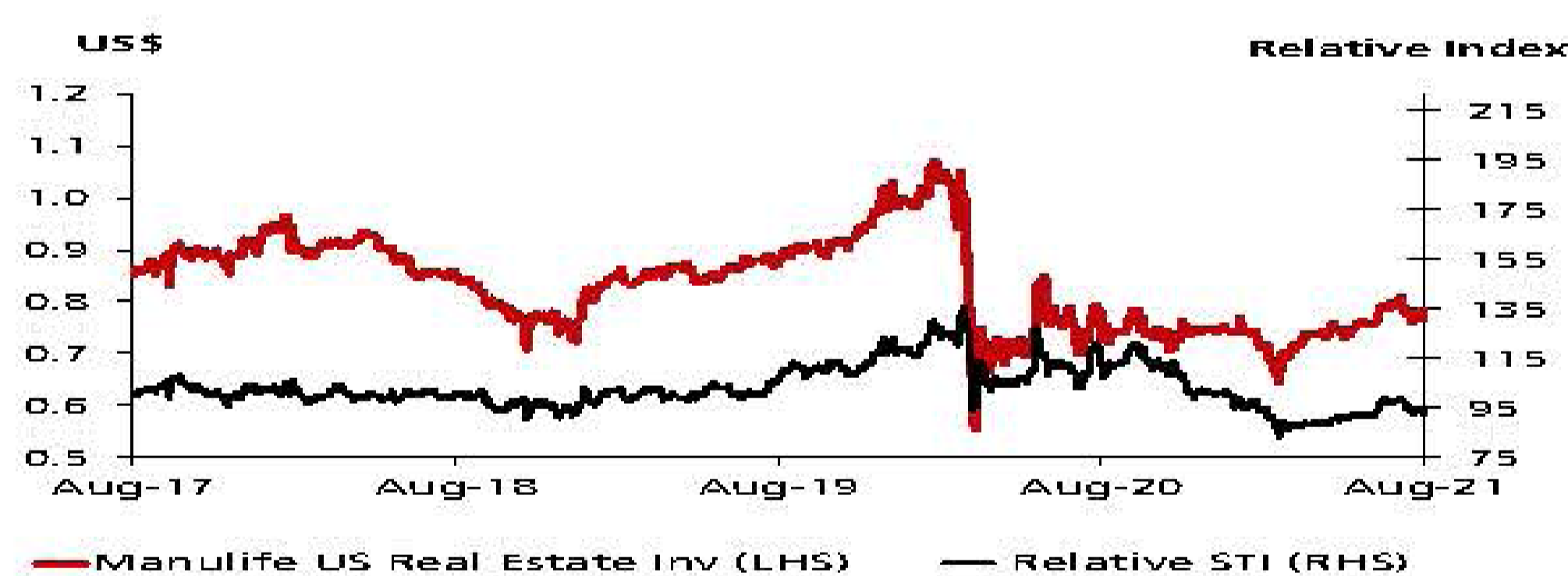
Analyst

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What's New

- 1H21 DPU decline mainly due to lower occupancy and carpark income, partially offset by writeback of provision
- Key positives: i) signs of leasing momentum improving and ii) encouraging progress with the renewal of the US Treasury lease
- Key negatives: i) occupancy further moderated with vacancy seen in key assets, ii) rental reversions moderated further and iii) a decline in portfolio valuation
- Maintain BUY; lower TP to US\$0.88

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2019A	2020A	2021F	2022F
Gross Revenue	178	194	188	199
Net Property Inc	111	116	119	127
Total Return	47.6	(43.3)	76.0	80.9
Distribution Inc	83.3	89.0	85.6	92.2
EPU (US cts.)	3.03	(2.7)	4.75	5.01
EPU Gth (%)	(40)	nm	nm	5
DPU (US cts.)	5.96	5.64	5.35	5.70
DPU Gth (%)	7	(5)	(5)	7
NAV per shr (US cts.)	80.2	73.1	72.4	71.7
PE (x)	25.2	nm	16.1	15.3
Distribution Yield (%)	7.8	7.4	7.0	7.5
P/NAV (x)	1.0	1.0	1.1	1.1
Aggregate Leverage	37.7	41.0	41.1	41.5
ROAE (%)	4.1	(3.6)	6.6	7.0

Distn. Inc Chng (%): (10) (8)
Consensus DPU (US): 5.80 6.00
Other Broker Recs: B: 8 S: 0 H: 2

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

Return-to-office in US to drive recovery

Investment Thesis

Return-to-office to drive recovery. We believe the return-to-office in the US and economic recovery will drive recovery in the office market.

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.

Yield is still attractive. Currently trades at a c.7% yield and 1.1x P/NAV for FY21F; it is still attractive, as interest rates are still at low levels.

Valuation

We lower our DCF-backed TP to US\$0.88 from US\$0.90, 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 downturns in the businesses of its tenants, which may lead to non-renewal of their leases.

At a Glance

Issued Capital (m shrs)	1,592
Mkt. Cap (US\$m/US\$m)	1,218 / 1,218
Major Shareholders (%)	
Manulife Financial Corp	5.5
Prudential PLC	5.0
Drachs Inv 3 Ltd	4.9
Free Float (%)	84.3
3m Avg. Daily Val (US\$m)	1.6
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Company Update

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Live more, Bank less

WHAT'S NEW

Return-to-office in US to drive recovery

DPU decline mainly due to lower occupancy and portfolio carpark income; NAV declined further to US\$0.68

- 1H21 DPU was -12% y-o-y to 2.70 UScts, below our estimates, mainly due to lower NPI (-10% y-o-y) from lower occupancy and lower portfolio carpark income (-43% y-o-y), partially offset by net reversal of provision for expected credit losses (ECL) of US\$2.1m.
- 1H21 revenue and NPI fell 8% y-o-y and 10% y-o-y respectively mainly due to lower occupancies at Michelson, Centerpointe, and Capitol and lower portfolio carpark income.
- All assets saw NPI declines y-o-y in the range of -3% y-o-y to 21% y-o-y, except Plaza (+27% y-o-y). Key assets (Figueroa, Michelson, Peachtree, Centrepointe and Capitol) saw larger y-o-y declines ranging from 11% to 21%.
- Gearing inched up to 42% vs 41% in 1Q21. The average cost of debt lowered to 2.99% vs 3.18% in 1Q21 and 4Q20.
- NAV declined further to US\$0.68 vs US\$0.70 in 1Q21 and 4Q20, due to a 1% decline in asset valuation vs the last valuation in Dec-20. All assets saw declines in valuation (larger ones came from Centerpointe (-8.3%) and Figueroa [-2.2%], except Michelson [+0.6%] and Phipps [+0.5%]). Portfolio cap rates remained stable.

Key Highlights

(-) Portfolio occupancy declined marginally q-o-q; some backfilling of Michelson vacancy expected in 3Q21

- Portfolio occupancy was -0.3ppt q-o-q to 91.7% (vs 2Q20 at 96.2%)
- On an h-o-h basis, key assets saw larger declines, including Michelson (-4 ppt), Capitol (-9 ppt), Penn (-5.4 ppt), and Centrepointe (-0.1ppt). The declines in occupancy seen in Michelson and Capitol were seen in 1Q21 due to tenant downsizing and relocation.
- New leases are expected to be signed soon at Michelson, which will bring occupancy up to 87% by 3Q21.
- Subleasing remains low at 3.2% of NLA, flat q-o-q.
- MUST expects about 60% of its tenants to return-to-office from Sep-21 and would expect parking revenue to increase consequently.

(+) Leasing activities picking up; discussions with US Treasury is encouraging

- With the progressive return-to-office in the US, MUST has seen a pick-up in leasing activities with the number of physical office tours doubling q-o-q in 2Q21.
- Looking forward, MUST has signed/expected to sign 127k sqft of leases in 3Q21, about 42% of leases completed in 1H2021.
- Management says that the discussion with US Treasury, one of its top 10 tenants with the lease expiring in Jan-22, has been encouraging and a positive outcome will be upside to the 127k sqft leases expected to be completed in 3Q21.

(-) Rental reversions moderated further to +1.3%.

- Rental reversions have moderated further to 1.3% vs 2.1% in 1Q21.
- Management continues to expect to maintain FY21 rental reversions at flat to slight positive.
- Net effective rents have fallen 10% to 15% during the pandemic, in line with market rents.

(+) Healthy rental collections; minimal impact from rental relief and deferment.

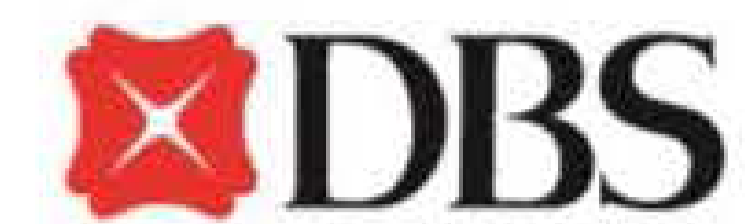
- Rental collections remained healthy at 99% vs 98% as at Apr21 and 94% in 4Q20.
- Rental abatement and deferment remain low at 2.4% and 0.3% of GRI respectively.

(-) Portfolio valuation declined by 1% vs Dec20; Figueroa and Centrepointe saw larger declines due to lower rents and rent growth, higher vacancy, and higher TIs.

- Portfolio valuation declined by 1% vs Dec-20. All assets saw declines except Michelson, Phipps, and Capitol.
- Assets that saw more significant declines were from Figueroa (-2.2% h-o-h) and Centrepointe (-8.3%) to factor in higher TIs and free rent, lower market rent and rent growth outlook, and higher vacancy.
- Portfolio cap rates have remained relatively stable though we note there were cap rates expansion in some of the assets.
- As the office market stabilises, management hopes that the valuation decline would stabilise as well.

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Live more, Bank less

Maintain BUY; lower TP to S\$0.88. We maintain our BUY rating but lower our TP to S\$0.88 from S\$0.90. We lowered our FY21 F-FY22F DPU by 8% to 10% to factor in lower occupancy and rental growth.

MUST currently trades at 1.1x P/NAV. Despite numbers showing some impact from the pandemic, the return-to-office exodus in the US, which progressively started from mid-year, would likely drive recovery towards normalcy. With some early positive signs seen, the outlook and sentiment for 2H21 onwards will be more optimistic in line with the US economic situation.

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.

Interim Income Statement (US\$m)

FY Dec	1H2020	2H2020	1H2021	% chg yoy	% chg qoq
Gross revenue	98.6	95.7	90.8	(7.9)	(5.1)
Property expenses	(36.5)	(42.0)	(34.7)	(4.7)	(17.3)
Net Property Income	62.2	53.7	56.1	(9.8)	4.5
Other Operating expenses	(6.6)	(5.2)	(5.7)	(13.6)	10.7
Other Non Opg (Exp)/Inc	(14.1)	2.20	4.21	nm	91.7
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(14.7)	(14.9)	(14.7)	0.1	1.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	26.8	35.8	39.9	49.0	11.5
Tax	15.0	7.74	4.13	(72.4)	(46.7)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	41.7	43.5	44.0	5.5	1.1
Total Return	(35.6)	(7.7)	6.70	nm	(187.4)
Non-tax deductible Items	6.25	(2.5)	(1.0)	nm	(59.7)
Net Inc available for Dist.	48.0	41.0	43.0	(10.4)	4.9
Ratio (%)					
Net Prop Inc Margin	63.0	56.1	61.8		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

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Summary of results

Summary of Results	1H2021	1H2020	% y-o-y	2H2020	% h-o-h
Revenue	90.8	98.6	-7.9%	95.7	-5.1%
NPI	56.1	62.2	-9.8%	53.7	4.5%
DI	43.0	48.0	-10.4%	41.0	4.9%
DPU (est)	2.70	3.05	-11.5%	2.59	4.2%

Source: Company, DBS

Key Operational Highlights

Key Operational Highlights	2Q2021	2Q2020	% y-o-y	1Q2021	% q-o-q
Portfolio occupancies	91.7%	96.2%	-4.5 ppt	92.0%	-0.3 ppt
Rental reversions (cumulative)	1.3%	7.9%	-6.6 ppt	2.1%	-0.8 ppt
WALE (years)	5.3	5.7	(0.4)	5.3	-
Gearing	42.1%	39.1%	3 ppt	41.3%	0.8 ppt
Average cost of debt	2.99%	3.26%	-0.3 ppt	3.18%	-0.2 ppt
DSCR	3.30	3.80	(1)	3.90	(0.6)
Leases expiring in FY2021	2.1%	6.1%	-4 ppt	4.4%	-2.3 ppt
Leases expiring in FY2022	13.2%	17.1%	-3.9 ppt	13.0%	0.2 ppt

Source: Company, DBS

Historical Dividend yield and PB band



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



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

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Income Statement (US\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Gross revenue	145	178	194	188	199
Property expenses	(53.9)	(67.1)	(78.5)	(69.0)	(72.0)
Net Property Income	90.7	111	116	119	127
Other Operating expenses	(9.3)	(12.4)	(11.8)	(11.4)	(13.5)
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)	76.8	81.7
Tax	(14.7)	(10.5)	22.7	(0.8)	(0.8)
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)	76.0	80.9
Total Return	64.5	47.6	(43.3)	76.0	80.9
Non-tax deductible Items	6.46	35.8	132	9.58	11.3
Net Inc available for Dist.	71.0	83.3	89.0	85.6	92.2
Growth & Ratio					
Revenue Gth (%)	57.1	23.0	9.3	(3.2)	5.6
N Property Inc Gth (%)	55.4	22.2	4.6	2.8	6.3
Net Inc Gth (%)	11.3	(26.3)	nm	nm	6.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	62.7	62.3	59.6	63.3	63.7
Net Income Margins (%)	44.6	26.7	(22.3)	40.4	40.7
Dist to revenue (%)	49.1	46.9	45.8	45.5	46.4
Managers & Trustee's fees	6.5	7.0	6.1	6.0	6.8
ROAE (%)	6.7	4.1	(3.6)	6.6	7.0
ROA (%)	4.1	2.4	(2.0)	3.6	3.8
ROCE (%)	4.5	4.4	5.3	5.5	5.8
Int. Cover (x)	4.3	3.8	3.5	3.5	3.6

Source: Company, DBS Bank

Company Update

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Interim Income Statement (US\$m)

FY Dec	1H2019	2H2019	1H2020	2H2020	1H2021
Gross revenue	83.3	94.5	98.6	95.7	90.8
Property expenses	(31.0)	(36.1)	(36.5)	(42.0)	(34.7)
Net Property Income	52.3	58.4	62.2	53.7	56.1
Other Operating	(5.5)	(7.0)	(6.6)	(5.2)	(5.7)
Other Non Opg (Exp)/Inc	(0.9)	(0.2)	(14.1)	2.20	4.21
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(11.9)	(13.8)	(14.7)	(14.9)	(14.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	34.1	37.5	26.8	35.8	39.9
Tax	(2.6)	(7.9)	15.0	7.74	4.13
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	31.5	14.1	41.7	43.5	44.0
Total Return	16.6	30.9	(35.6)	(7.7)	6.70
Non-tax deductible Items	8.43	13.8	6.25	(2.5)	(1.0)
Net Inc available for Dist.	40.0	43.4	48.0	41.0	43.0
Growth & Ratio					
Revenue Gth (%)	N/A	13	4	(3)	(5)
N Property Inc Gth (%)	nm	12	6	(14)	4
Net Inc Gth (%)	nm	(6)	41	4	1
Net Prop Inc Margin (%)	62.8	61.8	63.0	56.1	61.8
Dist. Payout Ratio (%)	100.0	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	2,008	2,025
Other LT Assets	0.0	0.49	0.0	0.0	0.0
Cash & ST Invt	54.1	60.7	86.7	94.0	93.1
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	9.07	7.61	6.93	8.05	8.50
Other Current Assets	1.00	2.61	1.66	1.66	1.66
Total Assets	1,803	2,166	2,088	2,112	2,128
ST Debt	110	78.9	234	234	234
Creditor	16.8	26.9	18.1	28.4	30.0
Other Current Liab	2.15	5.10	6.88	6.88	6.88
LT Debt	557	733	619	632	647
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	2,112	2,128
Non-Cash Wkg. Capital	(8.9)	(21.7)	(16.4)	(25.6)	(26.7)
Net Cash/(Debt)	(613)	(751)	(766)	(772)	(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	76.8	81.7
Dep. & Amort.	0.0	0.0	(0.7)	0.0	0.0
Tax Paid	(0.3)	(1.2)	(1.9)	(0.8)	(0.8)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	8.89	(35.9)	19.0	9.18	1.15
Other Operating CF	(8.3)	50.6	(8.8)	9.58	11.3
Net Operating CF	62.6	86.2	82.0	94.8	93.3
Net Invnt in Properties	(399)	(356)	(24.2)	(1.9)	(2.0)
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	0.21	0.47	0.17	(13.4)	(15.1)
Net Investing CF	(399)	(356)	(24.0)	(15.3)	(17.1)
Distribution Paid	(58.7)	(99.4)	(70.7)	(85.6)	(92.2)
Chg in Gross Debt	208	143	38.6	13.4	15.1
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)	(72.2)	(77.1)
Currency Adjustments	0.0	0.01	0.05	0.0	0.0
Chg in Cash	4.42	6.66	25.9	7.30	(0.8)
Operating CFPS (US cts.)	4.21	7.78	3.98	5.35	5.70
Free CFPS (US cts.)	(26.4)	(17.2)	3.66	5.81	5.65

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Feb 21	0.72	0.90	BUY

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

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

Company Update

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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: 13 Aug 2021 06:18:58 (SGT)

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Company Update

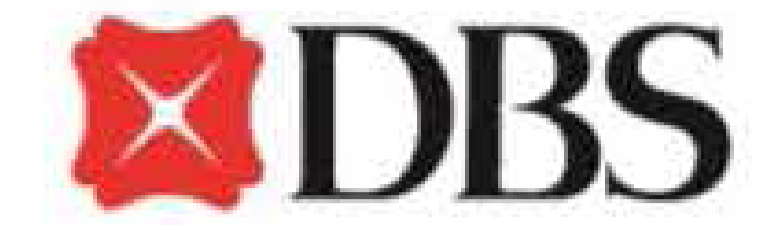
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Manulife US Real Estate Inv



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February 9, 2022



Manulife US REIT (MUST SP)

Yield Play

2H21 a miss, fundamentals sound

MUST's results were a miss, with 2H21 DPU at +1.5% YoY and -2.6% HoH, on higher rental abatements, lower carpark income and higher vacancies. This was despite operational improvements, underpinned by strong leasing momentum and a positive rental reversion guidance into FY22. We see tailwinds from strengthening US fundamentals, but cut our DPUs by 5% on lower occupancies. DPU visibility remains high, and well-cushioned by its low FY22-23E lease expiries and quality tenancies. We see valuations undemanding at c.8.7% FY22E yield, with upside from acquisitions, as management deepens its 'high-growth' sector AUM. Maintain BUY with 5% lower DDM-based USD0.95 TP (COE: 7.8%, LTG: 2.0%).

Occupancy higher with new assets

Portfolio occupancy rose to 92.3% (from 90.9% in 3Q21), driven by its three new properties - Diablo Technology Park and Tanasbourne Commerce Center, two suburban office campuses; and Park Place, comprising two class-A office buildings, that were 93.4% occupied. Leasing activity was strong at c.200k sf, up 34% QoQ and 240% YoY, with expiring leases in FY22 falling to 8.0% of NLA (from 12.6% in 3Q21). Rental reversion was at -0.8% for FY21 (versus +1.3% for 9M21) and would have been stronger at +3.3%, excluding Michelson. Management is guiding for similar low-to-mid single-digit positive reversion into FY22.

Tailwinds from strengthening recovery

US market fundamentals are strengthening, with leasing volumes up c.14% QoQ and c.73% YoY, underpinned by longer average tenures of 7.8 years (from 7.7 years in 3Q21), while net effective rents rose c.7% QoQ and c.10% YoY, driven by a +2.1% QoQ improvement in base rents (versus +0.9% QoQ in 3Q21). Subleasing activity has continued to decline (was -1.6% QoQ in 3Q21), while tenant incentives (TIs) eased by -c.11% QoQ (from -2.4%), as the market's overall rent-free period tightened to 8.2 months (from 8.9 months in 3Q21).

Gearing at c.43%, potential capital recycling

MUST's new assets at c.USD202m, backed by 'high-growth tenancies', have pushed AUM up c.11% HoH to SGD2.2b, and gearing from 42.1% to 42.8%, while cap rates were stable at 5.50-7.50%. Management is keen to push ahead on acquisitions with an estimated SGD333m debt headroom (at 50% limit), but with gearing at an historical high, we see likely recycling opportunities as part of near-term portfolio rejuvenation priorities, before it makes another sizeable deal.

FYE Dec (USD m)	FY19A	FY20A	FY21A	FY22A	FY23A
Revenue	178	194	185	214	219
Net property income	111	116	110	134	137
Core net profit	83	89	86	99	102
Core EPU (cts)	4.5	6.2	4.2	5.1	5.2
Core EPU growth (%)	11.7	35.8	(31.3)	21.2	1.9
DPU (cts)	6.0	5.6	5.3	5.6	5.7
DPU growth (%)	(1.6)	(5.2)	(5.5)	5.3	1.8
P/NTA (x)	1.2	1.0	1.0	1.0	0.9
DPU yield (%)	6.0	7.6	8.0	8.9	9.1
ROAE (%)	5.5	8.0	5.8	7.7	7.8
ROAA (%)	4.2	4.2	3.9	4.4	4.5
Debt/Assets (x)	0.37	0.41	0.43	0.43	0.42
Consensus DPU	-	-	-	-	-
MKE vs. Consensus (%)	-	-	-	-	-

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BUY

Share Price	USD 0.63
12m Price Target	USD 0.95 (+57%)
Previous Price Target	USD 1.00

Company Description

Manulife US REIT invests directly or indirectly in a portfolio of income producing office real estate in the US market.

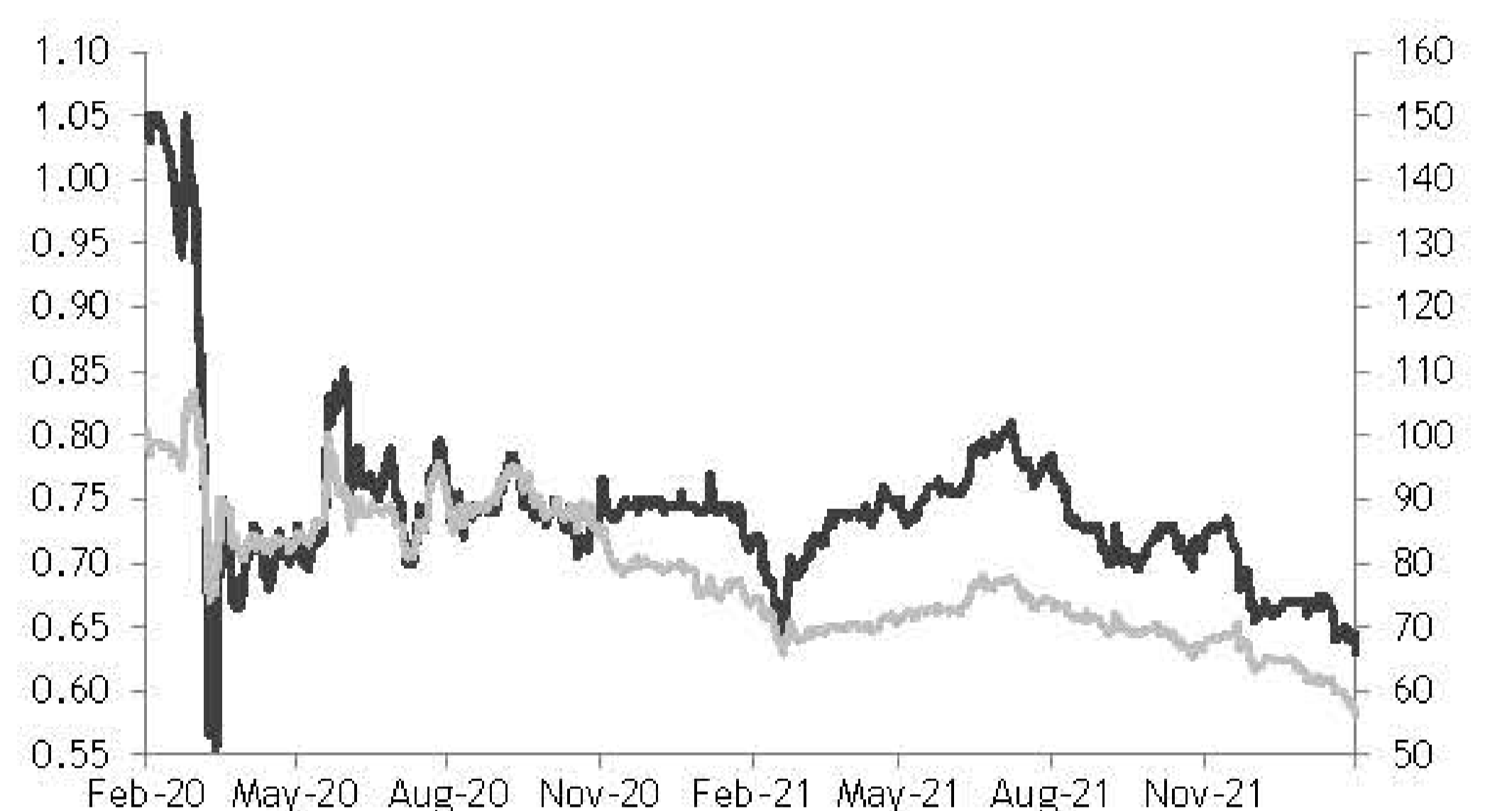
Statistics

52w high/low (USD)	0.81/0.63
3m avg turnover (USDm)	1.5
Free float (%)	92.4
Issued shares (m)	1,280
Market capitalisation	USD806.5M
	USD806M

Major shareholders:

Manulife Financial Corp.	6.9%
The Vanguard Group, Inc.	2.7%
TMB Asset Management Co., Ltd.	2.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(11)	(12)
Relative to index (%)	(11)	(15)	(24)

Source: FactSet

ESG@MAYBANK IBG
 Tear Sheet Insert

Value Proposition

- First pure-play US office REIT to be listed in Asia - a good proxy for a rebounding US economy.
- 67% of leases have fixed rental escalations averaging 2.6% pa, 29% under periodic rental increases; should support stable income growth and DPU visibility.
- Unique tax structure allows investors to access US real estate at lower tax rates, subject to conditions; MUST is subject to the same regulations as other S-REITs.
- Completed nine acquisitions totalling USD1.5b since IPO, which boosted its AUM to USD2.2b as of end Dec 2021.
- Sponsor Manulife offers acquisition growth pipeline.

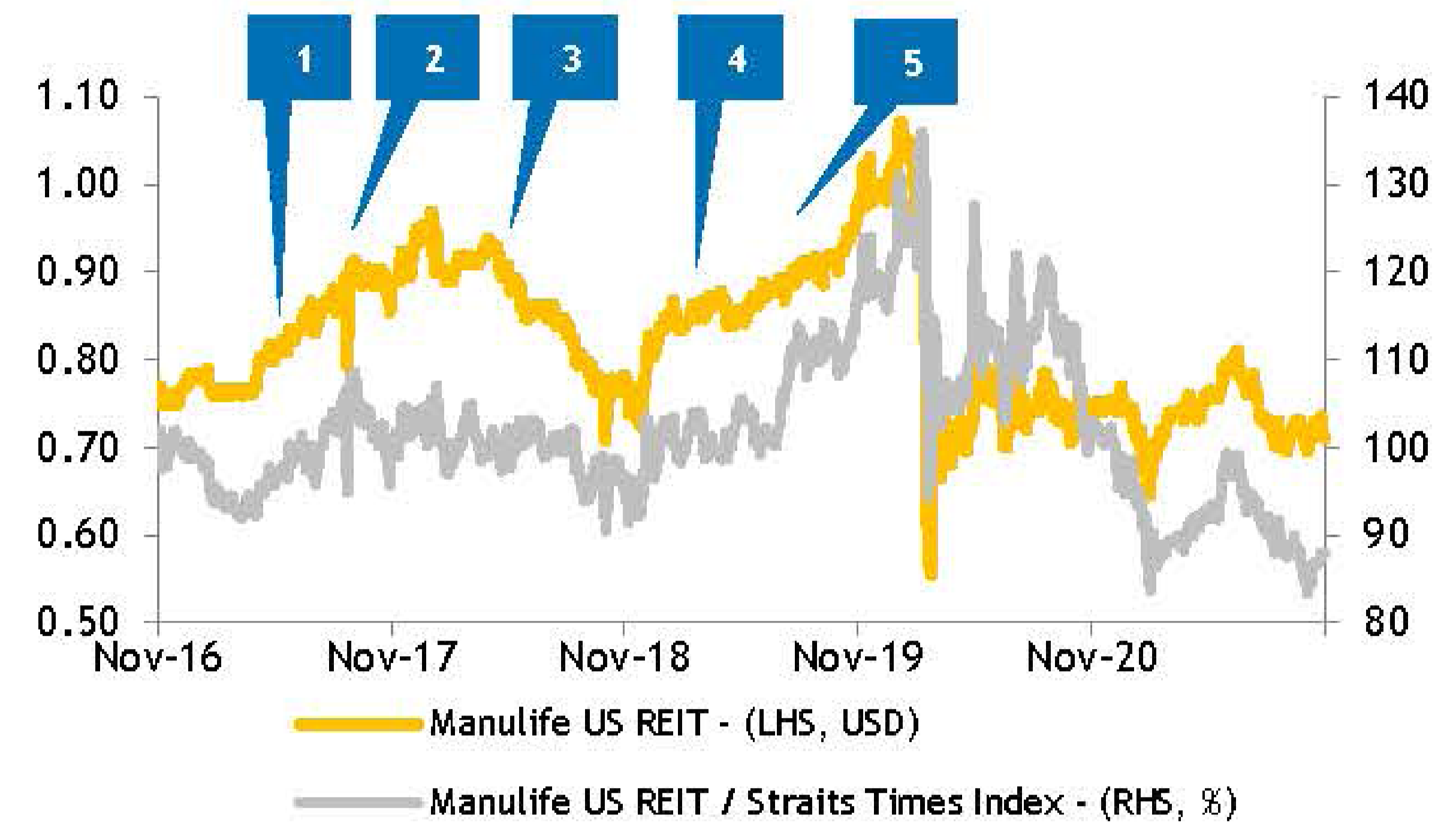
Sponsor's acquisition growth profile



Source: Company

Price Drivers

Historical share price trend



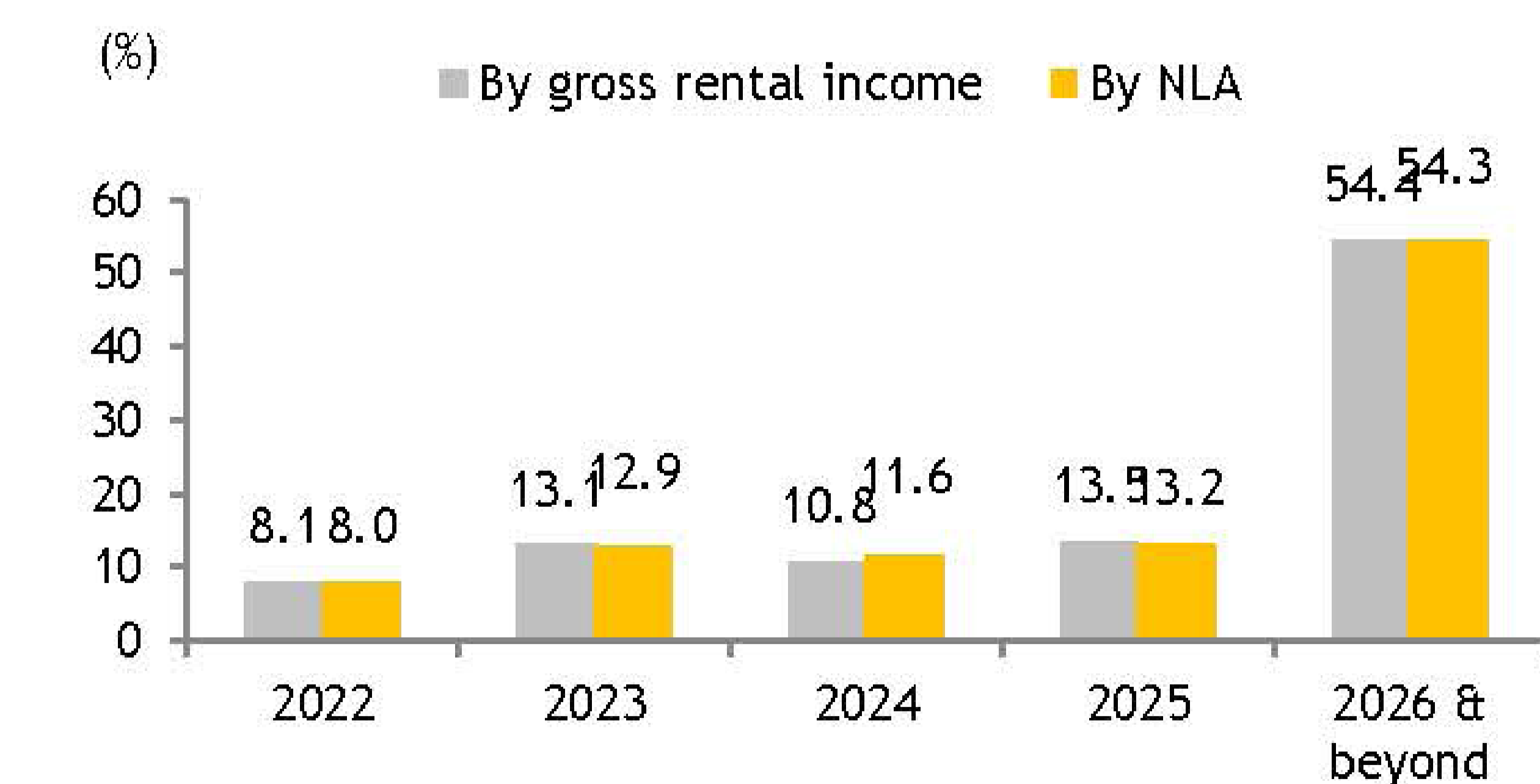
Source: Company, Maybank IBG Research

1. Jun-17: Maiden acquisition of Plaza New Jersey for USD115.0m to boost AUM by 13.9% and NPI by 17.7%, with built-in rental escalation and 9.2 years WALE.
2. Sep-17: Acquired Exchange, its second property in New Jersey for USD313.2m; AUM and NPI rose 34.2% and 27.8%, with DPU at +2.2% post-rights.
3. Apr-18: Acquired sponsor assets - Penn (6.8 years WALE) in Washington DC for USD182.0m and Phipps (10 years WALE) in Atlanta for USD205.0m.
4. Dec-18: US IRS released proposed S267A tax regulations, which will have minimal impact on the REIT structure.
5. May-19: Acquired Centerpointe, its second property in Washington DC for USD122.0m at 7.55% cap rate.

Financial Metrics

- 5.1-year WALE by NLA with 54.3% of leases by NLA expiring after 2025 as of end-Dec 2021. Lease expiries well-spread, with minimal due in 2021 and 2022.
- High 92.3% portfolio occupancy coupled with spread-out leases provide stable yield base.
- Most assets expecting -2.5% 12-month rental growth, in line with the US average.
- DPU growth at between -1.3% and +2.5% from FY20-22E.

Lease expiry profile as of end-Dec 2021



Source: Company

Swing Factors

Upside

- Better-than-expected DPUs from forecasts.
- Accretive acquisition of new properties.
- Increases in rents, occupancy or property values of its assets.

Downside

- Spikes in interest rates.
- Value-destroying acquisitions.
- Changes in tax regime that affects its tax-efficient structure.

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Risk Rating & Score ¹	11.5 (Low)
Score Momentum ²	-2.2
Last Updated	17 June 2020
Controversy Score ³ (Updated: 17 Feb 2017)	0 - No Reported Incident

Business Model & Industry Issues

- MUST draws on its available pool of funds to invest in US commercial real estate, carry out asset enhancements, and redevelop properties to optimise value for its unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are regulated by the MAS under Singapore’s code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with representation by members with international experience, essential in our view, given its US growth portfolio.
- Acquisitions of six freehold Trophy/ Class A properties since its IPO in 2016 have added USD1.2b to its AUM, while extending its WALE to 5.3 years, the highest amongst peers, which helps support DPU visibility.
- Participated in the Global Real Estate Benchmark in 2021 for a fifth year, and recorded a 93 score to outperform its peers across three aspects of ESG, and was also placed 5th out of 13 listed US office REITs.

Material E issues

- Eight properties (except for Centerpointe) have received the Energy Star certification under the US Environmental Protection Agency programme.
- Five of its nine properties are LEED (Leadership in Energy and Environmental Design) certified, with four recognised with the LEED Gold, and one (Capitol) with the highest LEED Platinum.
- Achieved for its fourth year a target to maintain or reduce energy and water intensity, which were down 23.2% YoY and 36.6% YoY in 2020. GHG intensity fell by 30.7% YoY in 2020, improving from +2.4% YoY in 2019, which was due to higher market-electricity grid emissions (for its two new assets).
- Recent refinancing activity has helped to increase the proportion of green and sustainability-linked loans to c.40% of its total borrowings, the highest among S-REITs.

Material S issues

- Initiatives to engage with unitholders and the investment community include the organisation of thought leadership events branded the Green Dot Series to broaden investors’ appreciation of US REITs, and an invitation of its US tax advisor to Singapore in Jan 2019 to conduct tax seminars for analysts, media and investors.
- Introduced plan for all MUST employees to be eligible for Manulife’s Global Share Ownership Plan from Jul 2019, which saw a strong 37.5% participation rate.
- Allocates a minimum SGD2k pa per employee to attend relevant programmes. Training hours per employee rose to 35.5 hours in 2020 (from 35.2 hours in 2019).
- Gender diversity is high, with female representation at >70% amongst all employees, 50% including its CEO at the management level, and also for the board.

Key G metrics and issues

- Externally managed by a 100% subsidiary of its sponsor The Manufacturers Life Insurance Company (Manulife), which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high - it does not comprise any members with executive functions, and 4 of its 7 members are independent.
- Management fee structure, with a base fee at 10.0% of its annual distributable income, performance fee at 25.0% of the difference in YoY DPU change, as well as acquisition and disposal fee at 1.0% and 0.5% deal value, is comparable to its US office peers.
- The cumulative remuneration of its key management team including the CEO, has represented <4.4% of distributable income since this was first reported in FY18.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency.
- Part of the SGX Fast Track Programme and ranked 4th out of 45 in the Governance Index for Trust in FY20.
- Joined the FTSE EPRA Nareit Global Developed Index in Dec 2019 given its higher trading liquidity, which resulted from a USD142.7m EFR to fund the acquisition of the Capitol property.
- Has maintained a sound balance sheet despite a 2.5x growth in AUM, with an average leverage of 36.8% from 3Q16-2Q21, manageable at 42.1% as of end-Jun 2021, and below the 50% regulatory limit.
- Maintained an ‘A’ rating for public disclosure in second submission to GRESB in 2021, to rank 2nd out of 10 peers with a 93 score.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

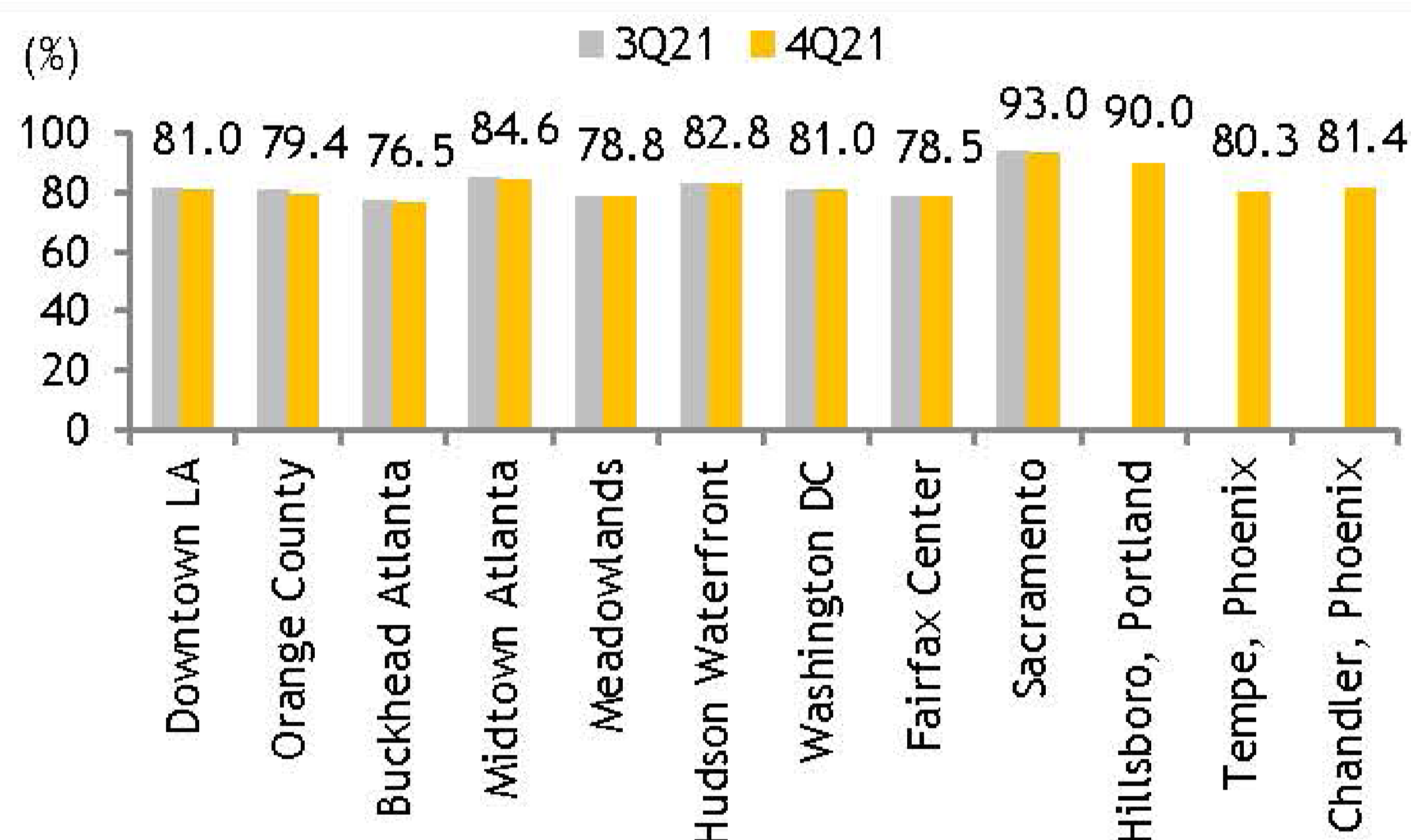
Fig 1: Summary financials 2H21A comparison

FYE 31 Mar	2H20	1H21	2H21	Change		YTD21	% of FYE	FY21E
	(SGD m)	(SGD m)	(SGD m)	(% YoY)	(% HoH)	(SGD m)		(SGD m)
Gross revenue	95.7	90.8	94.3	(1.4)	3.9	185.1	94.5	195.8
Property expenses	(42.0)	(34.7)	(40.8)	(2.8)	17.5	(75.6)	101.9	(74.1)
Net property income	53.7	56.1	53.5	(0.3)	(4.6)	109.5	90.0	121.7
Borrowing costs	(14.9)	(14.7)	(14.5)	(3.1)	(1.4)	(29.1)	97.8	(29.8)
Distributable income to unitholders	41.0	43.0	42.6	4.0	(0.9)	85.6	96.0	89.2
Distribution per unit	2.59	2.70	2.63	1.5	(2.6)	5.33	95.8	5.56
NAV per unit (SGD)	0.76	0.73	0.71	0.67				
Aggregate leverage (%)^	39.1	41.0	42.1	42.8	180	70		
All-in financing cost (%)^	3.26	3.18	2.99	2.82	(36)	(17)		
Occupancy (%)^	96.2	93.4	91.7	92.3	(110)	60		
Rental growth (% YoY)	7.9	0.1	1.3	-0.8				
NPI margin (%)^	63.0	56.1	61.8	56.7	62	(504)		

^Change in basis points

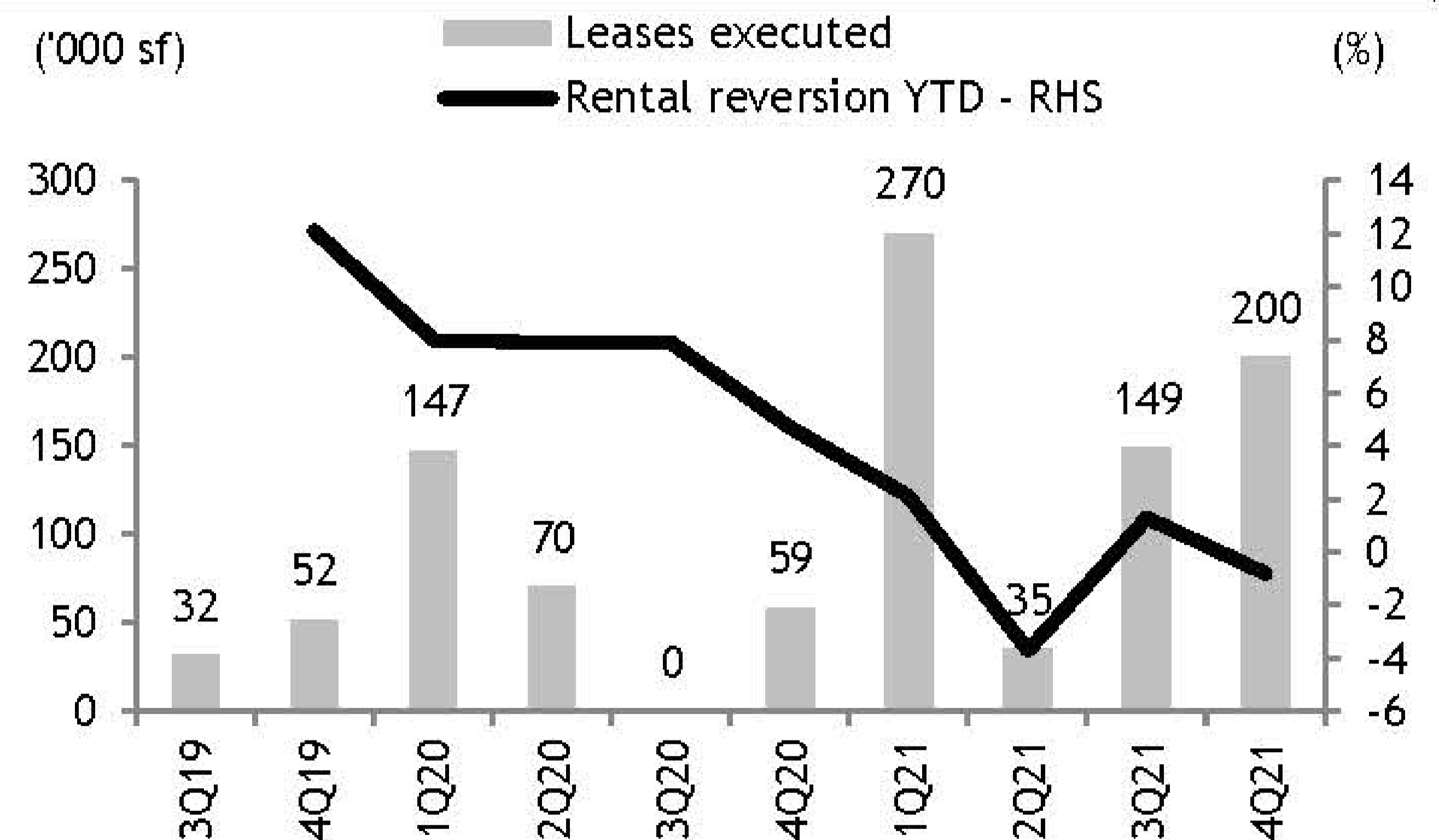
Source: Company data, Maybank IBG Research

Fig 2: Occupancies improved to 92.3% primarily due to new properties added in 4Q21



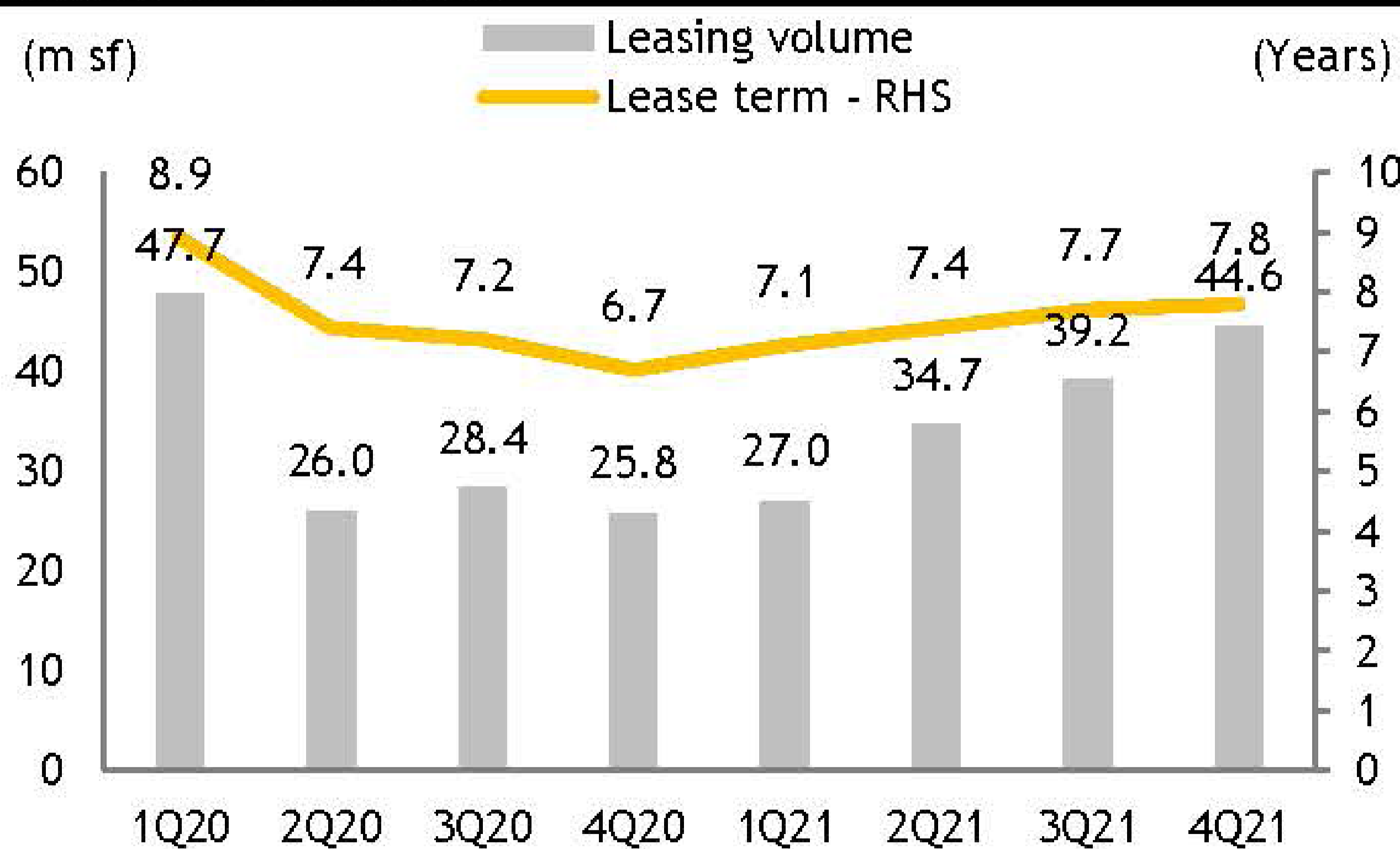
Source: Company data, CoStar Market Analysis & Forecast - As at Jan 2022

Fig 3: Leasing activity picked up at +34% QoQ and +240% YoY to c.200k sf in 4Q21, from c.149k sf in 3Q21



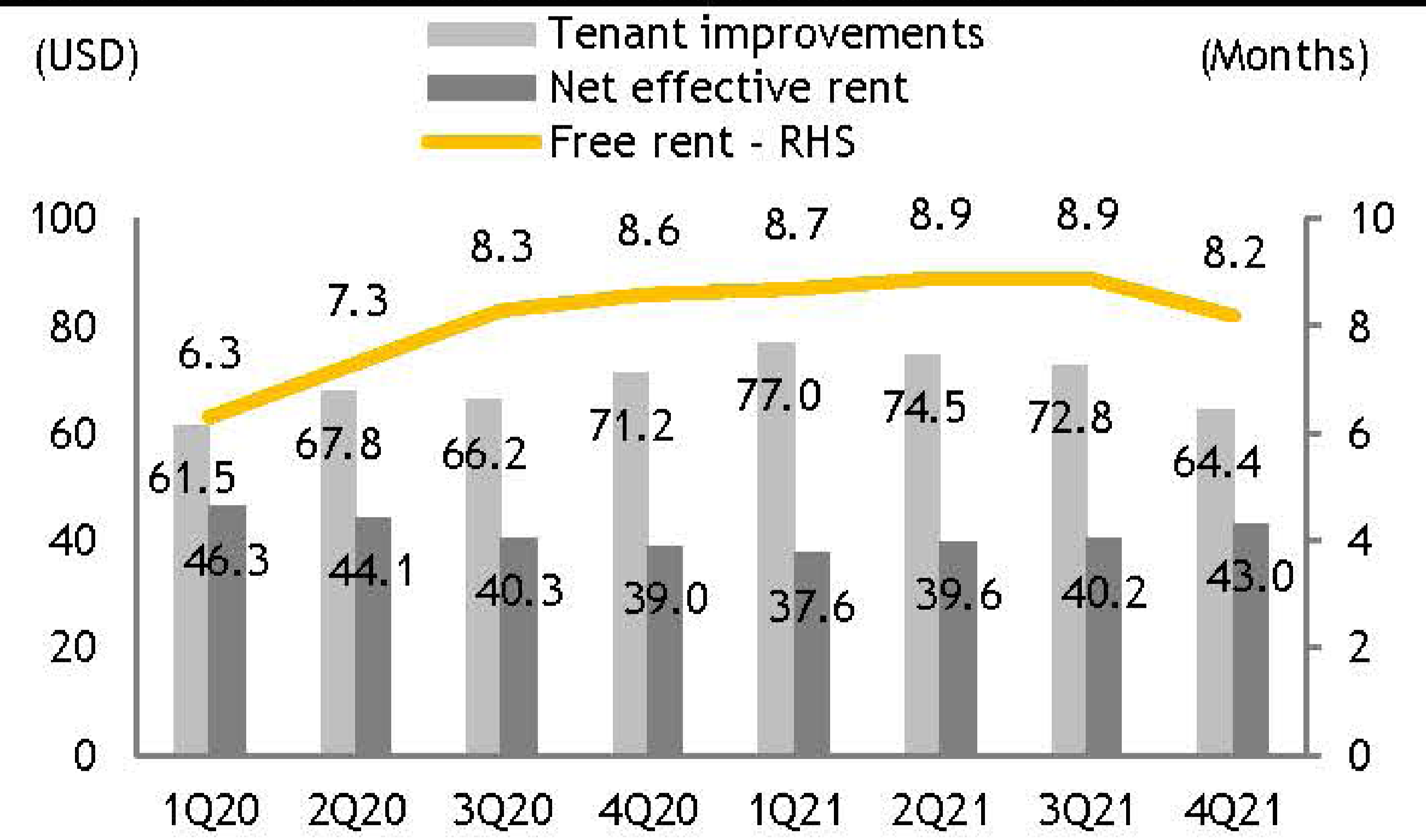
Source: Company data

Fig 4: US leasing volumes up c.14% QoQ in 4Q21, on the back of longer lease tenures



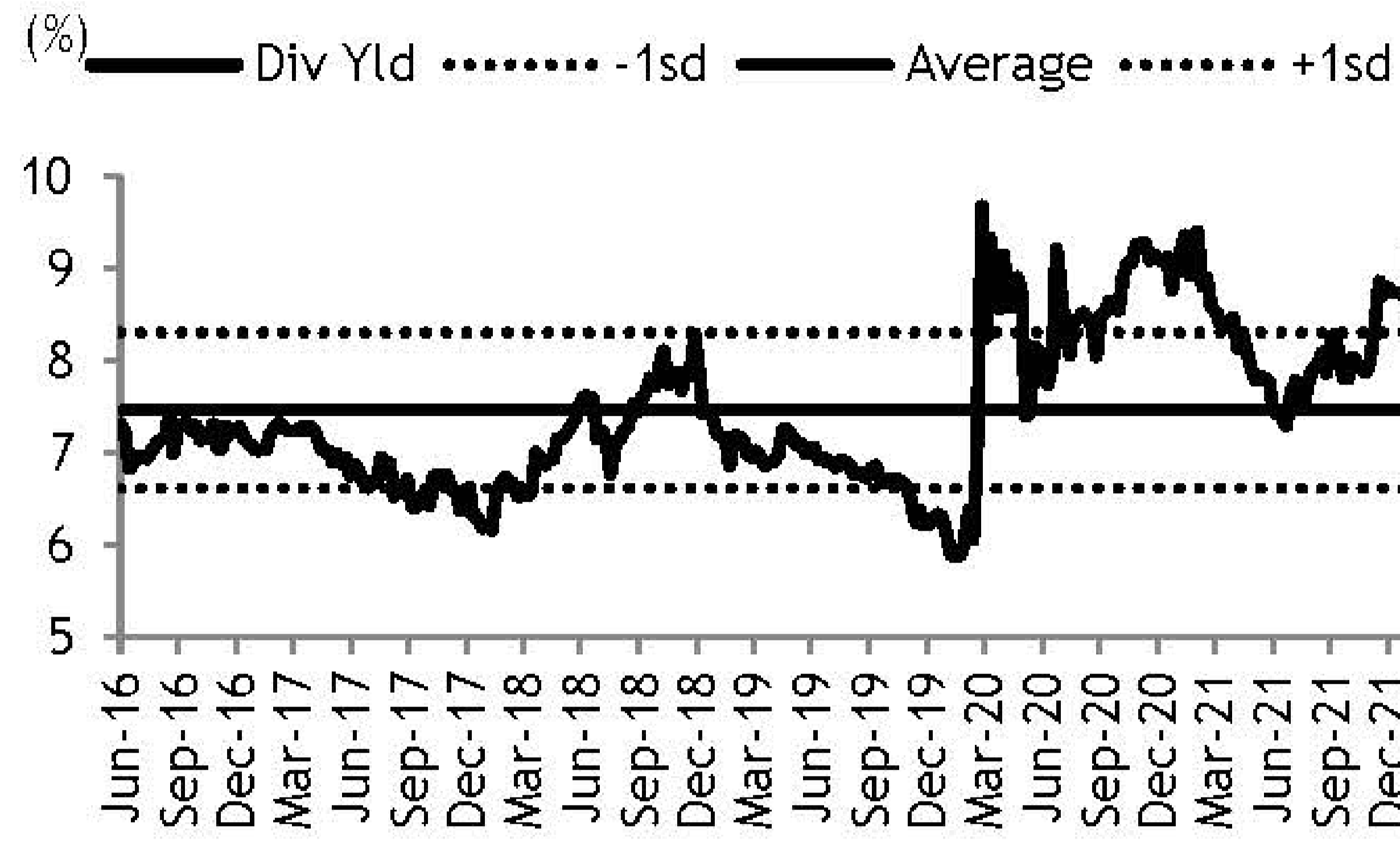
Source: JLL

Fig 5: Tenant improvements and rent-free improved in 4Q21, with net effective rent c.7% below pre-Covid levels



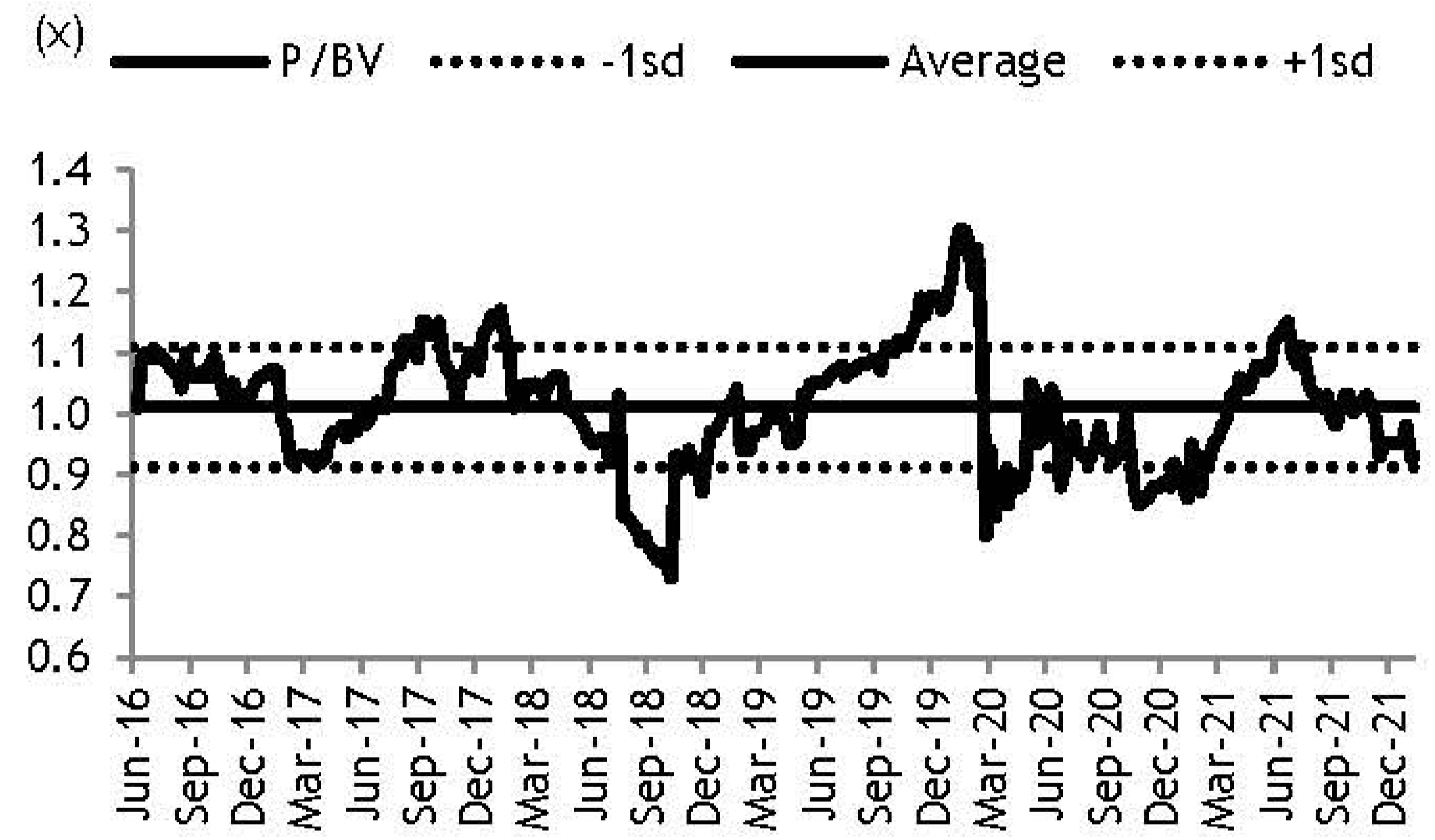
Source: JLL

Fig 6: DPU yield has compressed following its inclusion in the FTSE EPRA Nareit Global Developed Index in Dec 2019



Source: Bloomberg, Maybank IBG Research

Fig 7: P/BV expected to rise with growth in AUM, supported by long WALEs and rental escalation



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY19A	FY20A	FY21A	FY22A	FY23A
Key Metrics					
Price/DPU(x)	16.8	13.2	12.6	11.2	11.0
P/BV (x)	1.2	1.0	1.0	1.0	0.9
P/NTA (x)	1.2	1.0	1.0	1.0	0.9
DPU yield (%)	6.0	7.6	8.0	8.9	9.1
FCF yield (%)	6.2	7.0	7.2	8.9	9.1
INCOME STATEMENT (USD m)					
Revenue	177.9	194.3	185.1	214.2	219.1
Net property income	110.8	115.8	109.5	133.7	136.8
Management and trustee fees	(8.6)	(9.2)	(8.8)	(7.8)	(8.0)
Net financing costs	(26.2)	(29.7)	(29.1)	(31.5)	(31.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(13.5)	(128.5)	(42.4)	0.0	0.0
Other pretax income/expenses	0.5	0.2	0.0	0.0	0.0
Pretax profit	60.5	(54.1)	26.7	91.8	94.4
Income tax	(10.5)	22.7	(1.1)	(1.4)	(1.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	63.5	97.1	67.9	90.4	93.0
Core net profit	83.3	89.0	85.6	99.0	101.7
Distributable inc to unitholders	83.3	89.0	85.6	99.0	101.7
BALANCE SHEET (USD m)					
Cash & Short Term Investments	60.7	86.7	78.6	78.6	78.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	2,095.0	1,992.8	2,184.4	2,165.5	2,214.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	10.7	8.6	12.6	12.6	12.6
Total assets	2,166.5	2,088.1	2,275.6	2,256.7	2,306.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	26.9	18.1	58.8	58.8	58.8
LT interest bearing debt	812.0	852.3	971.3	971.3	971.3
Other liabilities	69.4	59.8	57.9	57.9	57.9
Total Liabilities	908.3	930.2	1,087.9	1,087.9	1,087.9
Shareholders Equity	1,258.2	1,157.9	1,187.7	1,168.8	1,218.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,258.2	1,157.9	1,187.7	1,168.8	1,218.1
Total liabilities and equity	2,166.5	2,088.1	2,275.6	2,256.7	2,306.0
CASH FLOW (USD m)					
Cash flow from operations	86.2	82.0	77.2	98.9	101.6
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	(356.0)	(24.2)	(230.9)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.5	0.2	0.0	0.0	0.0
CF from investing activities	(355.5)	(24.0)	(230.9)	0.0	0.0
Dividends paid	(99.4)	(70.7)	(84.0)	(99.0)	(101.7)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	143.4	38.6	117.3	0.0	0.0
Equity raised / (purchased)	231.9	0.0	98.9	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	276.0	(32.2)	132.2	(99.0)	(101.7)
Effect of exchange rate changes	0.0	0.1	(0.0)	0.0	0.0
Net cash flow	6.7	25.9	(21.5)	0.0	0.0

FYE 31 Dec	FY19A	FY20A	FY21A	FY22A	FY23A
Key Ratios					
Growth ratios (%)					
Revenue growth	23.0	9.3	(4.7)	15.7	2.3
Net property income growth	22.2	4.6	(5.4)	22.0	2.3
Core net profit growth	17.4	6.8	(3.8)	15.6	2.7
Distributable income growth	17.4	6.8	(3.8)	15.6	2.7
Profitability ratios (%)					
Net property income margin	62.3	59.6	59.2	62.4	62.4
Core net profit margin	46.9	45.8	46.2	46.2	46.4
Payout ratio	131.2	91.6	126.0	109.4	109.3
DuPont analysis					
Total return margin (%)	35.7	50.0	36.7	42.2	42.4
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.8	1.9	1.9	1.9
ROAE (%)	5.5	8.0	5.8	7.7	7.8
ROAA (%)	4.2	4.2	3.9	4.4	4.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.2	2.1	2.1	2.1
Net gearing (%) (excl. perps)	59.7	66.1	75.2	76.4	73.3
Net interest cover (x)	3.8	3.5	3.4	3.9	4.0
Debt/EBITDA (x)	8.1	8.2	9.9	7.9	7.7
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	751.3	765.6	892.7	892.7	892.7
Debt/Assets (x)	0.37	0.41	0.43	0.43	0.42

Source: Company; Maybank

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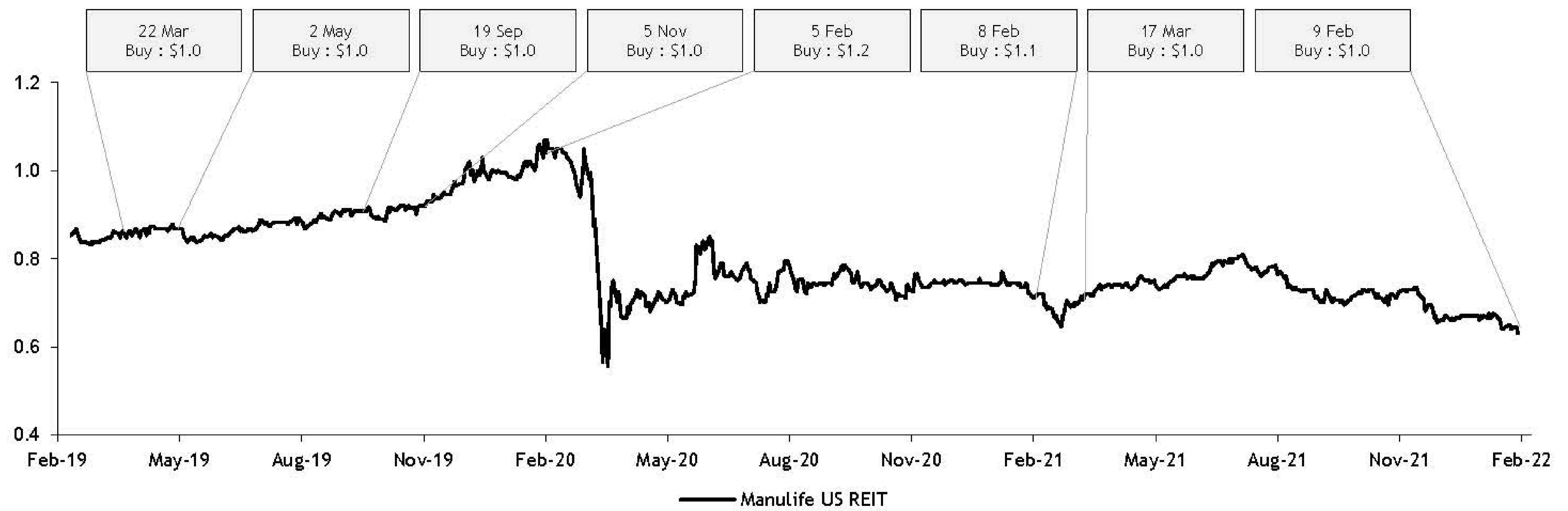
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- BUY** Return is expected to be above 10% in the next 12 months (including dividends)
- HOLD** Return is expected to be between 0% to 10% in the next 12 months (including dividends)
- SELL** Return is expected to be below 0% in the next 12 months (including dividends)

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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Manulife US REIT

Leasing recovery overpowered by occupancy loss

SINGAPORE | REAL ESTATE (REIT) | FY21 UPDATE

- FY21 DPU of 5.33 US cts (-5.5 % YoY) was a miss, forming 93% of our forecast, due to lower-than-forecasted portfolio occupancy.
- Occupancy slid 1.1 ppts on non-renewals and downsizing, but US office market is showing signs of recovery. Leasing momentum doubled YoY, while net effective rents improved 3.4% YoY.
- Upgrade from ACCUMULATE to BUY; DDM-based TP (COE 9.1%) raised from US\$0.84 to US\$0.86. FY21 occupancy came in lower than we anticipated. As such, we lower FY22e-24e DPUs by 2.1-6.3% to factor in the gradual recovery in occupancy from the current, lower-than-forecasted portfolio occupancy. DDM-TP rises due to higher later-period DPU forecasts. The US office market appears to be at an inflection point, showing recovery in leasing momentum. Catalysts include stronger-than-expected leasing and portfolio reconstitution. Current share price implies FY22e/FY23e DPU yield of 8.6%/8.9%.

Results at a glance

(USD mn)	2H21	2H20	YoY	FY21	FY20	YoY	Comments
Gross revenue	94.3	95.7	-1.4%	185.1	194.3	-4.7%	Due to lower occupancy of 92.3% (FY20: 93.4%), carpark income (-11.2% YoY)
Net property income	53.5	53.7	-0.3%	109.5	115.8	-5.4%	Due to higher rental abatement of 1.4% of GRI (FY20: 0.5% of FY20 GRI), partially offset by net reversal of expected credit loss of US\$1.7mn
Distributable income	42.6	41.0	+4.0%	85.6	89.0	-3.8%	
DPU (cents)	2.63	2.59	+1.5%	5.33	5.64	-5.5%	

Source: Company, PSR

The Positive

+ Leasing momentum doubled YoY with net effective rents improving 3.4%. MUST signed 654k sq ft, or 12% of NLA, in FY21, 2.3x the NLA executed in FY20. Traditional office tenants such as finance and insurance and government agencies accounted for 47% and 20% of leases signed. Reversions came in at -0.8% (FY20: +0.1%), weighed down by leases signed at Michelson. Michelson's expiring rents were above market rents due to the 2-3% annual escalation on long leases, leading to negative reversions when the leases were renewed at market rates. Excluding leases signed at Michelson, reversions would have been +3.3% (FY20: +4.7%). More importantly, net effective rents grew 3.4% YoY, as the rent-free period and tenant incentives eased. While improving, net effective rents are still 10-15% below pre-pandemic levels. Leases signed in FY21 were for an average term of 4.0 years, slightly shorter than the 6.4 years for leases signed in FY20.

The Negative

- Occupancy hurt by non-renewals and downsizing. Portfolio occupancy slid 1.1ppts YoY to 92.3%, 3.5ppts below FY19 levels. This compares with the average occupancy of 88.2% for Class A offices. Lower occupancy was due to non-renewals and downsizing with notable occupancy losses at Figueroa (-4.4 ppts), Penn (-5.4 ppts), Phipps (-5.5 ppts) and Capitol (-5.0 ppts).

Outlook

FY21 physical occupancy at MUST's properties ranged from 25-30%. MUST provided rental abatement of US\$2.4mn, or 1.4% of GRI, for F&B and retail tenants in FY21 (FY20: 0.5% of GRI). More pronounced return-to-office is expected to lift carpark income and lower rental abatement burden.



StocksBnB.com

16 February 2022

BUY (Upgraded)

LAST CLOSE PRICE	USD 0.655
FORECAST DIV	USD 0.057
TARGET PRICE	USD 0.860
TOTAL RETURN	39.9%

COMPANY DATA

BLOOMBERG CODE:	MUST SP
O/S SHARES (MN):	1,600
MARKET CAP (USD mn / SGD mn):	1149 / 1149
52 - WK HI/LO (SGD):	0.82 / 0.63
3M Average Daily T/O (mn):	2.20

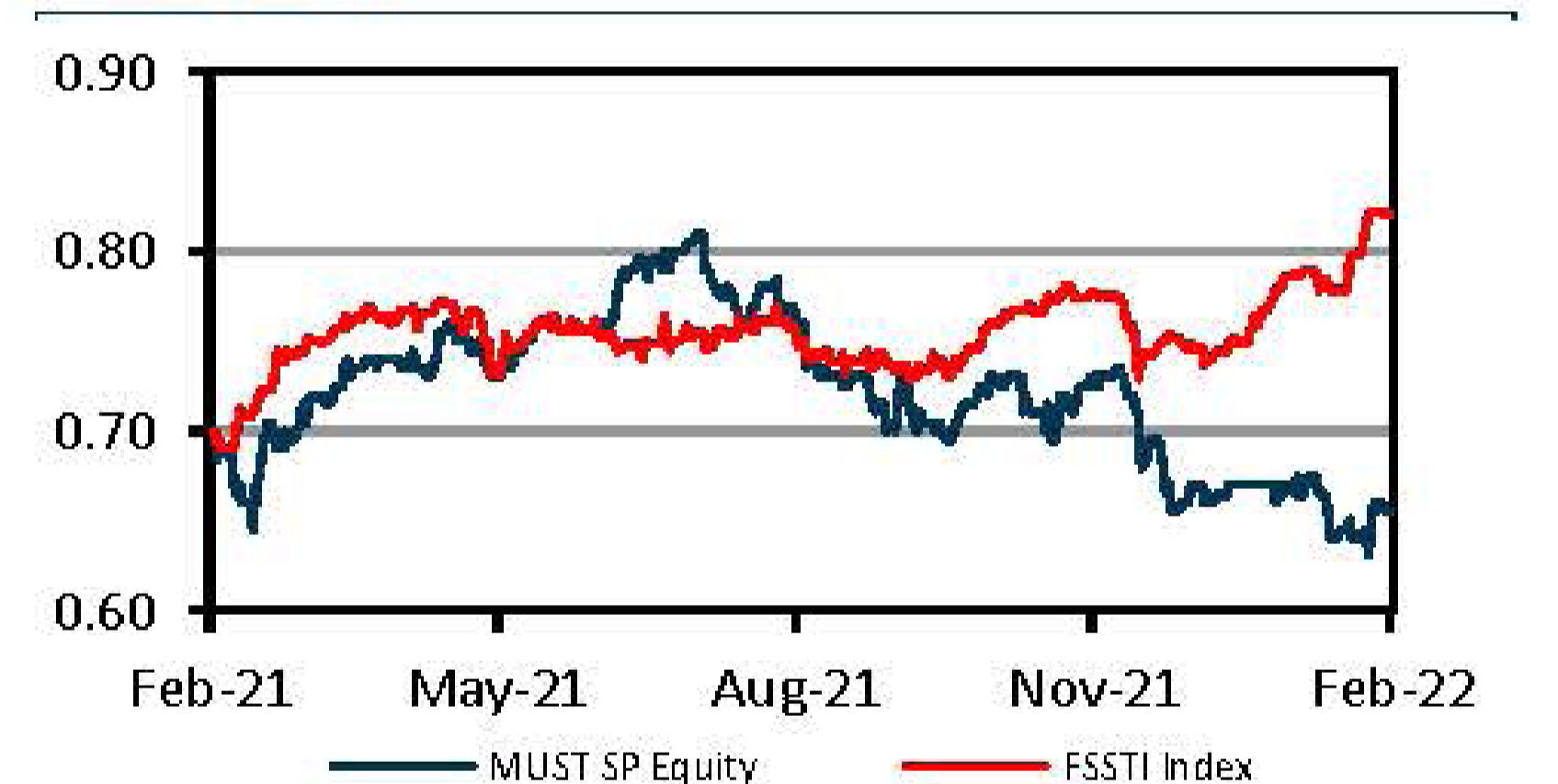
MAJOR SHAREHOLDERS (%)

MANULIFE FINANCIAL CORP	5.3%
PRUDENTIAL PLC	4.5%
DRACHS INV 3 LTD	4.4%
VANGUARD GROUP INC	3.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.0	(4.8)	0.3
STI RETURN	4.4	6.0	9.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD mn	FY20	FY21	FY22e	FY23e
Gross Rev. (USD mn)	194	185	214	224
NPI (USD mn)	116	110	127	132
Dist. Inc. (USD mn)	89	86	100	105
P/NAV (x)	0.90	0.97	0.98	1.00
DPU (US cents)	5.64	5.33	5.66	5.85
Distribution Yield (%)	8.61	8.14	8.64	8.93

Source: Company, PSR

VALUATION METHOD

DDM (COE: 9.1%; Terminal Growth: 2%)

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MANULIFE US REIT RESULTS

The US office market continues to show signs of recovery. This can be seen from (1) improving net effective rents; (2) lower TIs; (3) longer lease tenures signed; (4) decline in subleasing; and (5) improving rental growth outlook for MUST's cities. About 8.1% of GRI is up for renewal. FY22 renewals could yield positive reversions, given that passing rents are 2.1% below market rents.

Future acquisition is still focused on markets with high representation of tech, healthcare and life science tenants. MUST is eyeing assets with cap rates ranging 6.5% to 7.5% in sunbelt and magnet cities -- Seattle, Salt Lake City, Austin, Boston, and Raleigh. Following the acquisition of three properties in Phoenix and Portland in Dec21, MUST's exposure to tech and healthcare tenants increased from 9.5% to 12.8% of GRI. It hopes to increase its exposure to new economy tenants to 20% of GRI.

Upgrade from Accumulate to BUY, DDM TP raised from US\$0.84 to US\$0.86

FY21 occupancy came in lower than we anticipated. As such, we lower FY22e-24e DPUs by 2.1-6.3% to factor in the gradual recovery in occupancy from the current, lower-than-forecasted portfolio occupancy. DDM-TP rises due to higher later-period DPU forecasts. The US office market appears to be at an inflection point, showing recovery in leasing momentum. Catalysts include stronger-than-expected leasing and portfolio reconstitution. Current share price implies FY22e/FY23e DPU yield of 8.6%/8.9%.

Figure 1: Portfolio metrics at a glance

	NPI (US\$mn)				YoY	Occupancy				YoY ppts	Valuation (US\$mn)			
	FY19	FY20	FY21	YoY		FY19	FY20	FY21	YoY ppts		FY19	FY20	FY21	YoY
Figuroa	16.0	14.5	13.9	-4.1%	93.8%	93.0%	88.6%	-4.4	337.6	320.0	315.2	-1.5%		
Michelson	19.0	16.0	13.2	-17.5%	90.1%	84.4%	87.2%	2.8	345.0	319.0	317.0	-0.6%		
Peachtree	13.0	11.2	10.9	-2.7%	95.0%	90.4%	90.8%	0.4	210.7	203.1	212.9	4.8%		
Plaza	9.0	7.3	9.7	32.9%	98.9%	96.7%	96.7%	0.0	119.9	114.6	106.0	-7.5%		
Exchange	21.0	18.9	17.9	-5.3%	95.8%	94.8%	97.7%	2.9	348.6	333.0	324.0	-2.7%		
Penn	10.2	10.2	9.8	-3.9%	100.0%	99.2%	93.8%	-5.4	189.0	176.5	177.3	0.5%		
Phipps	13.2	12.4	11.9	-4.0%	100.0%	100.0%	94.5%	-5.5	220.1	212.1	216.0	1.8%		
Centerpointe	6.8	11.0	9.8	-10.9%	98.7%	91.7%	91.6%	-0.1	122.8	118.5	112.7	-4.9%		
Capitol	2.6	14.3	11.9	-16.8%	94.2%	93.3%	88.3%	-5.0	201.3	196.0	197.0	0.5%		
Total	110.8	115.8	109.0	-5.9%	95.8%	93.4%	92.3%	-1.1	2,095.0	1,992.8	1,978.1	-0.7%		

Note: Centrepointe and Capitol were acquired on 10 May 19 and 29 Oct 19 respectively. Excludes Tanasbourne, Park Place and Diablo which were acquired in Dec21

Source: Manulife US REIT, PSR

MANULIFE US REIT RESULTS

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	177.9	194.3	185.1	213.9	223.5
Property operating expenses	(67.1)	(78.5)	(75.6)	(87.3)	(91.2)
Net property income	110.8	115.8	109.5	126.6	132.3
Net Finance (Expense)/Inc.	(25.7)	(29.6)	(29.1)	(30.1)	(31.0)
Manager's base fee	(9.7)	(8.9)	(8.6)	(9.7)	(10.2)
Other items	(2.7)	(2.9)	(2.8)	(3.0)	(3.2)
Net income	72.6	74.4	69.1	83.8	88.0
FV change, derivatives & pptides	(13.5)	(128.5)	(42.4)	-	-
Total Return Before Tax	58.0	(66.0)	40.6	83.8	88.0
Taxation	(10.5)	22.7	(1.1)	(2.4)	(2.5)
Total Return After Tax	47.6	(43.3)	39.4	81.4	85.5
Distribution adjustments	35.8	132.3	46.2	18.6	19.2
Income available for distribution	83.3	89.0	85.6	100.0	104.7

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (US\$)	0.80	0.73	0.68	0.67	0.66
DPU (US cents)	5.96	5.64	5.33	5.66	5.85

Cash Flow

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Total Return Before Tax	58.0	(66.0)	40.6	83.8	88.0
Adjustments	50.6	186.6	71.0	43.8	45.3
WC changes	2.6	(8.8)	6.1	(35.2)	1.3
Cash generated from ops	111.2	111.8	117.7	92.4	134.6
Others	(1.2)	(1.9)	(0.1)	(0.2)	(0.2)
Cashflow from ops	110.1	109.9	117.6	92.3	134.5
CFI					
Purchase of Inv. propty., net	(311.0)	-	(201.0)	-	-
Capex, net	(45.0)	(24.2)	(30.0)	(9.5)	(9.5)
Others	(1.2)	(1.9)	(0.1)	(0.2)	(0.2)
Cashflow from investments	(355.5)	(24.0)	(230.9)	(9.5)	(9.5)
CFF					
Share issuance, net	236.7	-	100.0	-	-
Loans, net of repayments	146.1	39.6	118.5	-	-
Interest paid	(23.9)	(27.9)	(26.9)	(27.6)	(28.6)
Distributions	(99.4)	(70.7)	(84.0)	(99.9)	(104.5)
Others	(1.2)	(1.9)	(0.1)	(0.2)	(0.2)
Cashflow from financing	252.1	(60.0)	105.3	(130.0)	(135.6)
Net change in cash	6.6	25.9	(8.1)	(47.2)	(10.6)
Effects of exchange rate	0.0	0.1	(0.0)	-	-
Ending cash	60.7	86.7	78.6	31.3	20.8

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, USD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	2,095.0	1,992.8	2,184.4	2,195.4	2,206.4
Others	0.5	-	5.7	5.7	5.7
Total non-current assets	2,095.5	1,992.8	2,190.1	2,201.1	2,212.1
Trade receivables	7.6	6.9	5.6	11.7	11.7
Cash	60.7	86.7	78.6	31.3	20.8
Others	0.5	-	5.7	5.7	5.7
Total current assets	71.0	95.3	85.6	44.5	33.9
Total Assets	2,166.5	2,088.1	2,275.6	2,245.5	2,245.9
LIABILITIES					
Current borrowings	78.9	233.6	296.6	206.9	244.9
Trade payables	26.9	18.1	58.8	30.1	31.3
Others	0.5	-	5.7	5.7	5.7
Total current liabilities	110.9	258.6	363.7	245.4	284.6
Non-current borrowings	733.1	618.7	674.7	764.4	726.4
Others	0.5	-	5.7	5.7	5.7
Total non-current liabilities	797.3	671.5	720.5	811.9	776.3
Total Liabilities	908.2	930.1	1,084.2	1,057.3	1,060.9
Net assets	1,258.3	1,158.0	1,191.4	1,188.2	1,185.0
Represented by:					
Unitholders' funds	1,258.2	1,157.9	1,187.7	1,184.5	1,181.3
Perp. securities holders	0.1	0.1	0.8	0.8	0.8

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.82	0.90	0.97	0.98	1.00
Distribution Yield	9.1%	8.6%	8.1%	8.6%	8.9%
NPI yield	5.8%	5.7%	5.2%	5.8%	6.0%

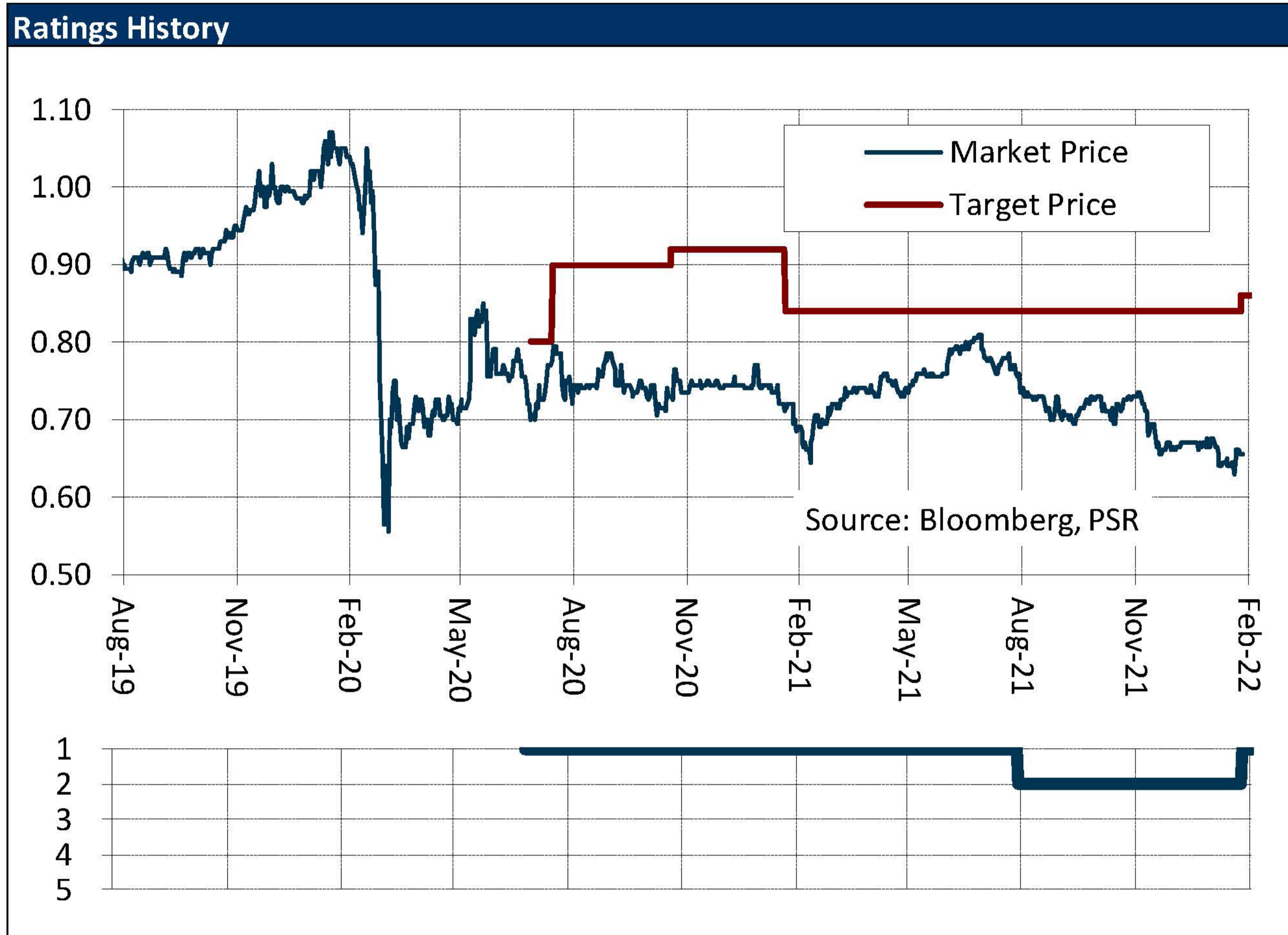
Growth & Margins (%)

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	n.m.	9.3%	-4.7%	15.5%	4.5%
Net property income (NPI)	n.m.	4.6%	-5.4%	15.6%	4.5%
Distributable income	n.m.	6.8%	-3.8%	16.8%	4.7%
DPU	n.m.	-5.4%	-5.5%	6.2%	3.4%
Margins					
NPI margin	62.3%	59.6%	59.2%	59.2%	59.2%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
Net Debt or (Net Cash)	751	766	893	940	951
Gearing (%)	37.5%	40.8%	42.7%	43.3%	43.2%

MANULIFE US REIT RESULTS



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

MANULIFE US REIT RESULTS

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COMPANY RESULTS

Manulife US REIT (MUST SP)

2021: Slight Miss; Expect DPU To Improve Moving Forward

2021 DPU was down 5.5% yoy and slightly below our expectations, dragged by lower carpark income and occupancy along with higher rental abatements. The US office market is showing a strong recovery momentum as overall leasing volumes and rents have trended upwards. For 2H21, MUST saw a recovery in new leases signed and improving rents. Exposure to the fast growing tech and healthcare sectors increased to 12.8% of GRI. Maintain BUY for its attractive yield of 8.9%. Target price: US\$0.80.

2021 RESULTS

Year to 31 Dec (US\$m)	2021	2020	yoy % chg	2H21	yoy % chg	hoh % chg	Notes
Revenue	185.1	194.3	(4.7)	94.3	(1.4)	3.9	
NPI	109.5	115.8	(5.4)	53.5	(0.3)	(4.6)	
Distributable Income	85.6	89.0	(3.8)	42.6	4.0	(0.9)	
DPU (cents)	5.33	5.64	(5.5)	2.63	1.5	(2.6)	

Source: MUST, UOB Kay Hian

RESULTS

- **Underwhelming performance, dragged down by lower occupancy rates.** Manulife REIT's (MUST) 2021 DPU was slightly below expectations, falling 5.5% yoy and forming 95.6% of our full-year forecasts. The drop in DPU was due to higher rental abatements, lower carpark income (-11.2% yoy) and lower rental income caused by higher vacancies.
- **Softer occupancy rates in 2021.** Overall portfolio occupancy softened 1.1ppt in 2021 to 92.3%, caused by non-renewals and downsizing of several tenants. However, 2H21 portfolio occupancy grew 1.4ppt hoh as the US office market showed signs of a recovery. MUST executed 645,000sf of leases (12% of net lettable area, +230% yoy) in 2021, with roughly 192,000sf of leases signed in 4Q21 (+34% qoq, +240% yoy). Expiring leases by gross rental income (GRI) for 2022 dropped to 8.1% from 11.8% in 3Q21.
- **Expect potential positive rental reversion.** Although MUST experienced a -0.8% rental reversion in 2021, excluding Michelson, MUST would have had a positive 3.3% rental reversion. This was largely due to Michelson's long-lease expiring rents being above market rents due to compounded annual rent escalations. We may expect positive single-digit rental reversion of roughly 2.1% as 2022 expiries are below market rents, backed by improving fundamentals. Lastly, 2H21 net effective rents were up 3.4% hoh as rental-free period and tenant incentives started to taper off.
- **Gearing remains steady.** Gearing levels increased slightly to 42.8% (3Q21: 42.0%) due to the recent three acquisitions. With debt headroom of about US\$320m (50% gearing), we opine that MUST may add on acquisitions due to favourable macroeconomic tailwinds, specifically aiming assets with cap rates of 6.5-7.5% and exposure to tech and healthcare. MUST's exposure to these fast growing sectors increased from 9.5% to 12.8% of GRI.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	194	185	219	222	222
EBITDA	104	98	118	117	118
Operating profit	104	98	118	117	118
Net profit (rep./act.)	(43)	39	76	75	76
Net profit (adj.)	97	68	81	80	80
EPU (US\$ cent)	6.2	4.2	4.8	4.6	4.5
DPU (US\$ cent)	5.6	5.3	5.6	5.8	6.0
PE (x)	10.2	14.9	13.2	13.8	13.9
P/B (x)	0.9	0.9	0.9	1.0	1.0
DPU Yld (%)	8.9	8.5	8.9	9.2	9.5
Net margin (%)	(22.3)	21.3	34.9	33.9	34.0
Net debt/(cash) to equity (%)	66.1	75.2	79.5	81.4	84.1
Interest cover (x)	3.5	3.4	3.9	3.8	3.8
ROE (%)	n.a.	3.4	6.5	6.4	6.5
Consensus DPU (US\$ cent)	n.a.	n.a.	5.5	5.8	5.9
UOBKH/Consensus (x)	-	-	1.02	1.00	1.02

Source: MUST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.63
Target Price	US\$0.80
Upside	19.2%
(Previous TP:	US\$0.87)

COMPANY DESCRIPTION

US office REIT with a portfolio of prime, freehold and Class A or Trophy quality office properties strategically located in Los Angeles; Irvine, Orange County; New Jersey; Atlanta; Washington D.C.; Fairfax; and Sacramento.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MUST SP
Shares issued (m):	1,764.1
Market cap (US\$m):	1,111.4
Market cap (US\$m):	1,111.4
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

52-week high/low US\$0.81/US\$0.615

1mth	3mth	6mth	1yr	YTD
(3.8)	(4.5)	(10.6)	(9.4)	(6.0)

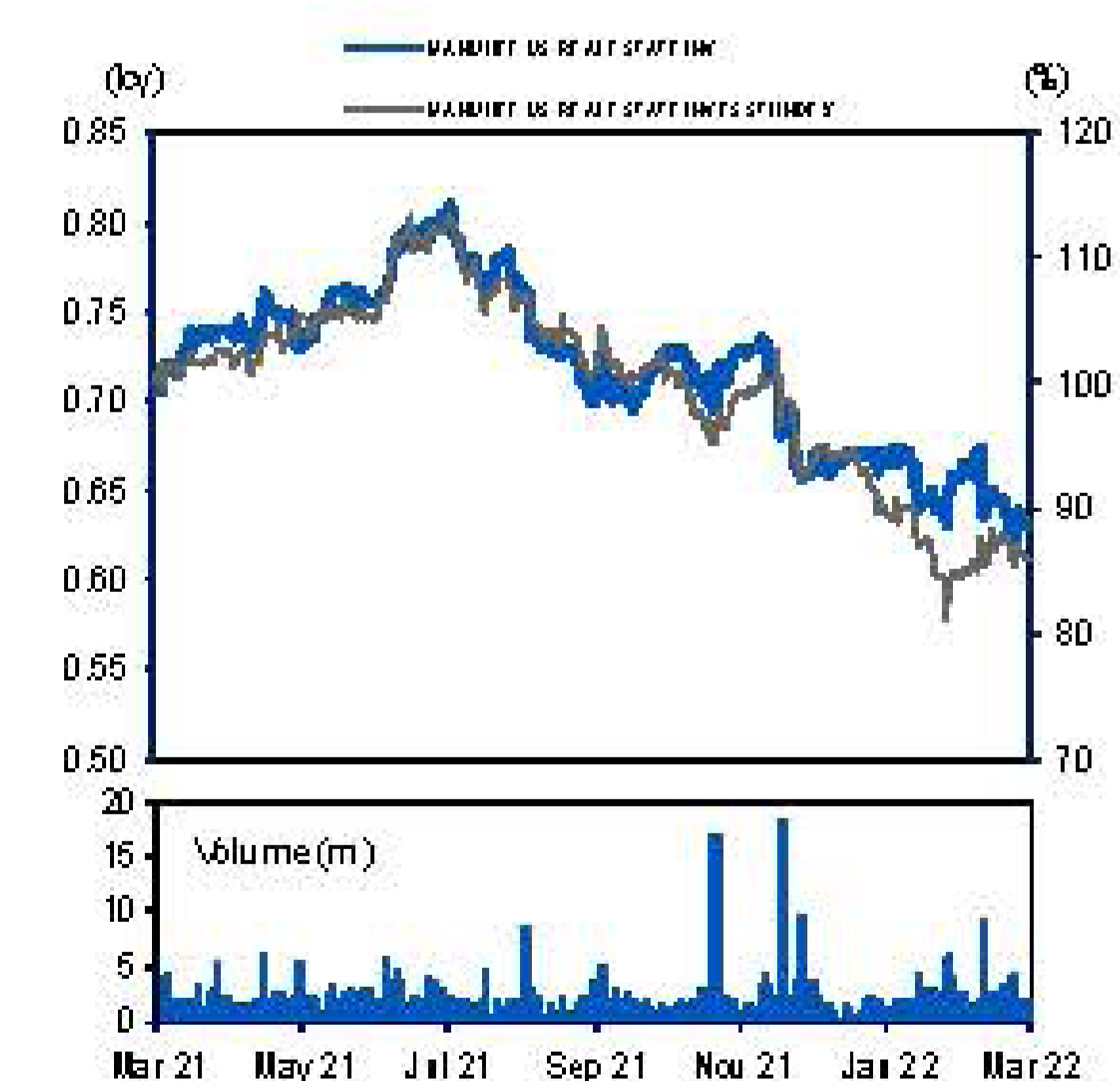
Major Shareholders

Manulife Financial Corp 9.2%

FY22 NAV/Share (US\$) 0.67

FY22 Net Debt/Share (US\$) 0.53

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong recovery momentum in the US office market.** The US economy is facing a strong recovery as: a) more of its population gets fully vaccinated, and b) there is strong government support/spending. This has spilled over into the US office sector with 4Q21 leasing volumes rising 13.8% qoq while average tenures have increased from 7.7 to 7.8 years. Tenant incentives (-11.4% qoq) and rent-free periods (-8.5% qoq) have dropped sharply while base (+2.2%) and net effective rents (+6.9%) have trended upwards qoq. Continuing from 3Q21, subleasing activity remained flat in 4Q21 and is expected to trend downwards. Looking forward, with strong industry tailwinds, we reckon this would translate into stronger leasing environment and occupancy rates for MUST.

EARNINGS REVISION/RISK

- **Decrease our 2022-23 DPU forecasts slightly, while adding our 2024 DPU forecast.** We decrease our DPU estimates for 2022 and 2023 by 7.7% and 6.7% respectively, on the back of higher interest expense and lower rental growth assumptions.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of S\$0.80 (previously: S\$0.87),** based on DDM assumptions of 9.0% required rate of return (8.0% previously) and terminal growth rate of 1.0%. We increase our required rate of return due to the upcoming interest rate hikes. We believe that MUST remains an attractive dividend play with its generous 2022-23 dividend yields of 8.9% and 9.2% respectively.

SHARE PRICE CATALYST

- Positive newsflow on office leasing activity.
- Return to office in the US.

OFFICE LOCATIONS

Markets	Gross Asking Rent (US\$)	Net Absorption ('000 sq ft)	Last 12 months rent growth ¹ (%)	Projected 12 months rent growth ² (%)	New Properties Under Construction ('000 sq ft)	Delivery Year
Downtown Los Angeles	41.78	(239.2)	0.3	2.3	-	-
Irvine, Orange County	33.49	(200.4)	(2.2)	2.3	-	-
Buckhead Atlanta	39.97	(124.0)	1.7	3.4	340.0 ³	2022
Midtown Atlanta	43.70	(94.0)	0.3	3.3	-	-
Meadowlands ³	35.71	(9.5)	(1.6)	1.8	-	-
Hudson Waterfront ³	44.12	0.0	(1.6)	1.8	-	-
Washington, D.C.	58.16	110.0	0.0	0.2	814.0 ⁴	2022, 2024
Fairfax Center	32.51	17.6	(1.2)	2.8	-	-
Downtown Sacramento	39.54	(15.9)	0.6	2.7	-	-
Hillsboro, Portland	26.89	(103.2)	3.4	3.7	-	-
Tempe, Phoenix	24.77	41.6	1.9	5.7	471.0 ⁵	2022
Chandler, Phoenix	30.51	(10.4)	2.9	5.9	-	-

Source: All Submarket and Market Data as at Jan 2022 from CoStar Market Analysis & Forecast Reports

(1) Data excludes Hillsboro, Tempe and Chandler markets

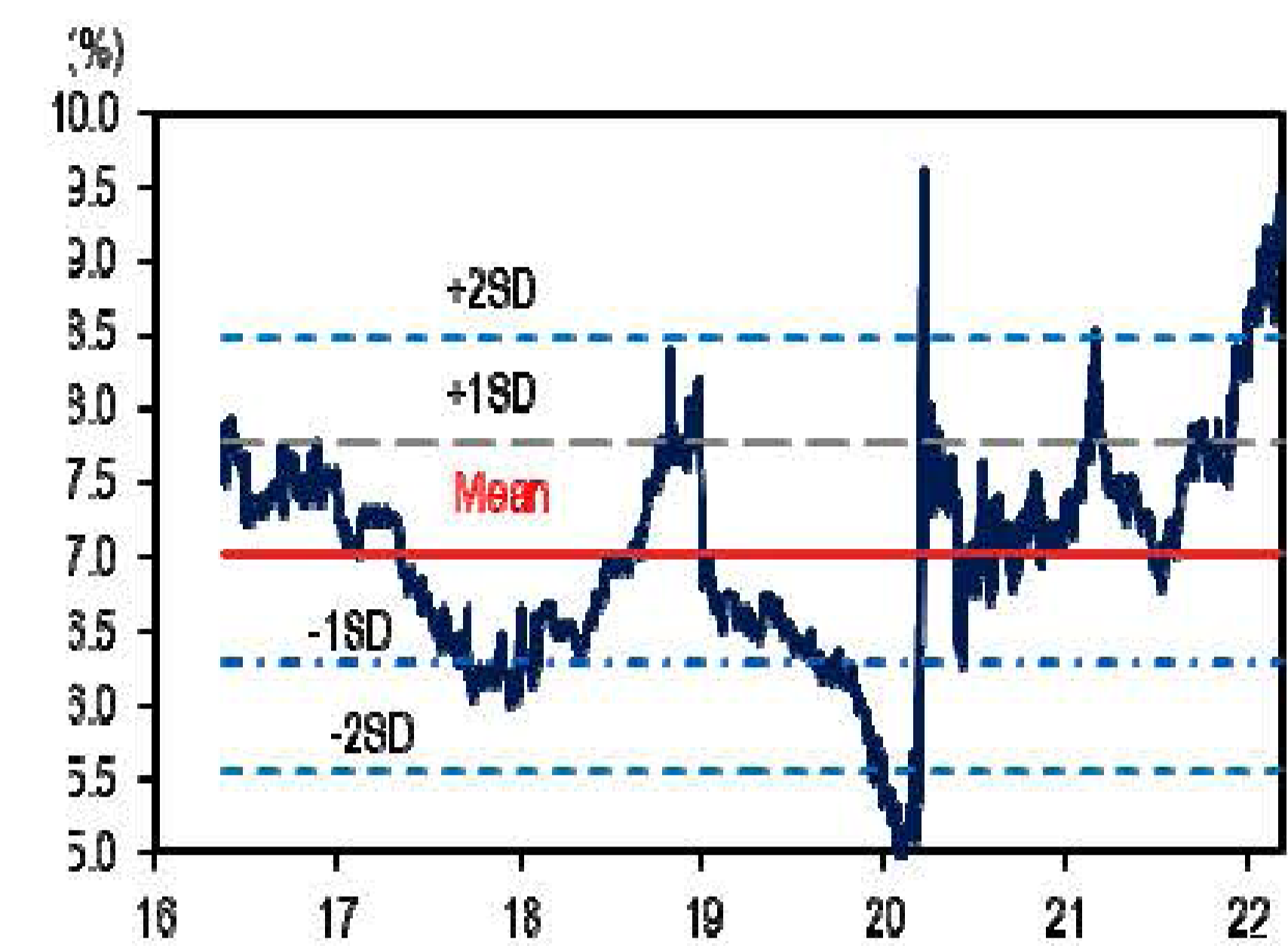
(2) All building classes

(3) 28% pre-leased to Novellis

(4) Comprises of Trophy assets which are not comparable to Penn

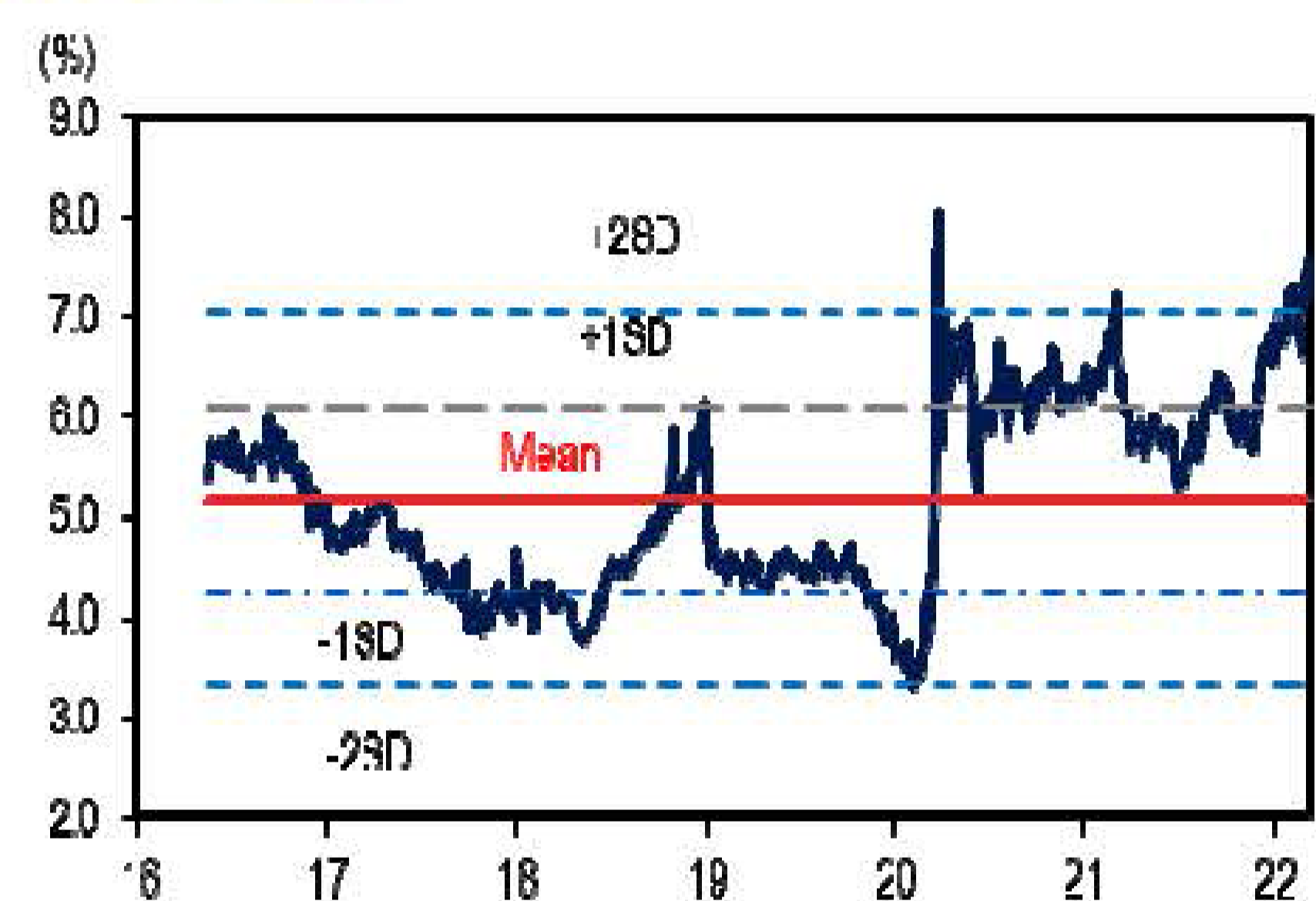
(5) Comprises of Class A assets which are not comparable to Diablo

YIELD



Source: Bloomberg, UOB Kay Hian

YIELD SPREAD



Source: Bloomberg, UOB Kay Hian

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PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	185.1	218.5	221.9	222.3
EBITDA	98.2	117.9	117.1	117.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	98.2	117.9	117.1	117.6
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(29.1)	(30.1)	(31.1)	(31.1)
Pre-tax profit	40.6	83.4	81.7	82.2
Tax	(1.1)	(7.1)	(6.5)	(6.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	39.4	76.3	75.1	75.6
Net profit (adj.)	67.9	80.7	79.5	80.0

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	2,184.4	2,188.8	2,193.2	2,197.6
Other LT assets	5.7	5.7	5.7	5.7
Cash/ST investment	78.6	35.5	23.7	6.3
Other current assets	7.0	8.8	9.0	9.0
Total assets	2,275.6	2,238.8	2,231.5	2,218.5
ST debt	296.6	296.6	296.6	296.6
Other current liabilities	67.1	40.4	46.0	50.4
LT debt	674.7	674.7	674.7	674.7
Other LT liabilities	46.7	46.7	46.7	46.7
Shareholders' equity	1,187.6	1,177.5	1,164.6	1,147.2
Total liabilities & equity	2,275.6	2,238.8	2,231.5	2,218.5

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	90.6	86.4	123.0	122.1
Pre-tax profit	40.6	83.4	81.7	82.2
Tax	(1.1)	(7.1)	(6.5)	(6.6)
Deprec. & amort.	1.9	(4.4)	(4.4)	(4.4)
Associates	0.0	0.0	0.0	0.0
Working capital changes	43.6	(32.9)	1.0	0.0
Non-cash items	41.6	17.3	20.2	19.8
Other operating cashflows	(35.9)	30.1	31.1	31.1
Investing	(230.9)	0.0	0.0	0.0
Capex (growth)	(201.0)	0.0	0.0	0.0
Capex (maintenance)	(30.0)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	132.2	(129.5)	(134.8)	(139.5)
Distribution to unitholders	(120.9)	(99.4)	(103.8)	(108.4)
Issue of shares	100.0	0.0	0.0	0.0
Loan repayment	118.5	0.0	0.0	0.0
Others/interest paid	34.7	(30.1)	(31.1)	(31.1)
Net cash inflow (outflow)	(8.1)	(43.0)	(11.8)	(17.4)
Beginning cash & cash equivalent	86.7	78.6	35.5	23.7

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.1	53.9	52.8	52.9
Pre-tax margin	21.9	38.2	36.8	37.0
Net margin	21.3	34.9	33.9	34.0
ROA	1.8	3.4	3.4	3.4
ROE	3.4	6.5	6.4	6.5
Growth				
Turnover	(4.7)	18.1	1.5	0.2
EBITDA	(5.6)	20.0	(0.7)	0.5
Pre-tax profit	n.a.	105.7	(2.1)	0.6
Net profit	n.a.	93.7	(1.6)	0.6
Net profit (adj.)	(30.1)	18.8	(1.5)	0.6
EPU	(31.1)	13.0	(4.4)	(1.3)
Leverage				
Debt to total capital	45.0	45.2	45.5	45.8
Debt to equity	81.8	82.5	83.4	84.7
Net debt/(cash) to equity	75.2	79.5	81.4	84.1
Interest cover (x)	3.4	3.9	3.8	3.8

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