

MANULIFE US REIT

BUY

Share Price:	US\$0.86
Target Price:	US\$0.93
Upside:	8.1%

COMPANY DESCRIPTION

Manulife US Real Estate Investment Trust is the first pure-play U.S. office REIT to be listed in Asia. Its initial portfolio comprises three freehold, Class A or Trophy quality office properties which are strategically located across prime areas of key U.S. cities.

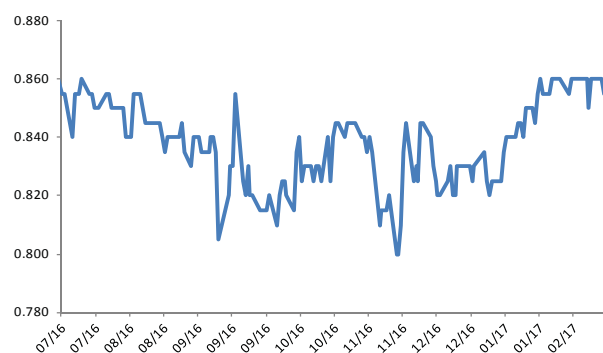
The initial portfolio has an aggregate net lettable area of approximately 1.8 million sq ft and an occupancy rate of 96.5% as at 31-Dec-15. Manulife US Real Estate Investment Trust was listed on the Main Board of the SGX-ST at US\$0.83 on 20-May-16.

Name	Manulife US REIT
Bloomberg Code	MUST SP Equity
3M Avg Daily Trading Vol (k)	1,178.2
3M Avg Daily Trading Val (US\$'000)	989.9
Major Shareholder / Holdings	Manulife Financial Corp / 7.69%
Shares Outstanding (m)	625.5
Market Capitalisation (US\$m)	536.9
52 week Share Price High/Low	US\$0.865 / US\$0.77

STOCK PRICE PERFORMANCE

Absolute Return (%)	1M 2.3	3M 6.2	12M N.A.
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PRICE CHART



Source : Bloomberg

OUTPERFORMING EXPECTATIONS

Given its steady set of 4Q16 results, we are maintaining our BUY recommendation on Manulife US REIT with an unchanged target price of US\$0.93. Our forecasts largely remain intact with FY17F DPU expected to improve to US\$0.0605, underpinned by the positive fundamentals of the U.S. real estate market. Combined with a prospective yield of 7%, this in turn translates to a total return of 15.2% from current share price.

Better than expected. For the period from 20-May-16 to 31-Dec-16, income available for distribution was US\$22.3mln and was 4.8% above its IPO forecast of US\$21.29mln. For FP16, a DPU of US\$0.0355 was announced which equates to an annualised S\$0.0575, beating our in-house forecast of US\$0.0561 and its IPO forecast of US\$0.055. Meanwhile, 4Q16 revenue slightly disappointed at US\$19.3mln which was 2.1% below its IPO forecast of US\$19.7mln, although income available for distribution came in at US\$9.7mln which was 3.6% above its IPO forecast of US\$9.4mln.

Increase in portfolio value. Management noted that this positive set of numbers have beaten its IPO profit forecast as a result of higher property performance and lower borrowing costs and trust expenses. As at 31-Dec-16, the REIT's portfolio value has increased by 2.5% over the previous valuation as at 30-Sep-16. For FY16, the REIT's portfolio value has increased by US\$56.3mln or 7.2% over the acquisition cost. Based on committed leases, the REIT's property portfolio occupancy remained strong at 97.0%. The REIT has a weighted average lease expiry of 5.8 years with 67.8% of the leases expiring in 2022 and beyond. In addition, the REIT registered positive rental reversions of 10.5% on approximately 130,000 square feet of leases for the period 01-Jan-16 to 31-Dec-16.

Lower gearing. 100.0% of the REIT's borrowings are fixed at an average cost of debt of 2.46% p.a. with no refinancing required until 2019. The interest expense of US\$5.1mln was below the REIT's forecast by 9.3% due to lower interest cost and lower amortisation of financing costs. In addition, gearing of 34.7% as at 30-Sep-16 was reduced to 33.8% as at 31-Dec-16 as a result of the increase in the investment portfolio's fair value which provides additional debt headroom for the REIT.

Positive outlook. Office absorption during the current U.S. business cycle has been relatively strong, with demand exceeding new supply for most of the past six years. The national average vacancy rate decreased by 10 bps to 10.4% during 4Q16, as the market recorded 6mln square feet of net absorption. Over the last 12 months, the U.S. office market vacancy rate declined by 30 bps. Market conditions continue to be generally favourable in the three markets that Manulife US REIT has invested in, with minimal new supply and rising market rents.

KEY FINANCIALS

December YE	FY13	FY14	FY15	FP16	FY17(E)
Revenue (US\$, mln)	69.8	70.0	70.9	47.5	79.3
Net Property Income (US\$, mln)	43.4	43.5	44.2	30.0	48.6
Net Income after tax (US\$, mln)	22.8	24.0	26.0	22.3	30.8
EPU (US cents)	3.65	3.84	4.15	8.25	4.84
EPU Growth (%)	N.M.	5.2	8.1	98.8	-41.3
P/E (x)	23.6	22.4	20.7	10.4	17.8
P/B (x)	N.M.	N.M.	1.1	1.1	1.1
ROE (%)	N.M.	N.M.	5.3	4.5	6.8
Distribution Per Unit (US cents)	0	0	0	5.75	6.05
Distribution Yield	0	0	0	6.7	7.0

* May-16 to Dec-16

Source : Company, Bloomberg

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Exhibit 1: Positive 10.5% Rental Reversion Across Portfolio

Rental Reversions (%) based on New Leases Signed from 1 Jan 2016 to 31 Dec 2016

Property	Percentage of Total NLA	Net Lettable Area (sq ft)	Rental Reversion (%)
Figueroa	14.3%	99,127	11.6
Michelson	0.7%	3,889	9.9
Peachtree	5.0%	27,870	5.8
Total	7.3%	130,886	10.5

Source: Company

Exhibit 2: Portfolio Performance

<p>Occupancy Rate</p> <p>97.0%</p>	<p>Portfolio Valuation</p> <p>US\$833.8m</p> <p>▲ 7.2% from Listing Date¹</p>
<p>WALE</p> <p>5.8 years</p>	<p>Gearing</p> <p>33.8%</p> <p>▼ from 36.8% on Listing Date¹</p>
<p>Rental Reversions</p> <p>+10.5%</p> <p>from 1 Jan 2016 to 31 Dec 2016</p>	<p>Net Asset Value</p> <p>US\$0.87 per Unit</p> <p>▲ 11.5% from Listing Date¹</p>

(1) 20 May 2016

Source: Company

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Exhibit 3: Increase In Portfolio Valuation By 7.2%

Valuation Increases Underpinned by Positive Fundamentals in US Office Market

Change in Portfolio Value as at 31 Dec 2016

Property	Acquisition Price as at 20 May 2016 (US\$ million)	Valuation as at 30 Sep 2016 (US\$ million)	Valuation as at 31 Dec 2016 (US\$ million)	Change since 30 Sep 2016 (%)	Change since 20 May 2016 (%)	Current Cap Rate ¹ (%)
Figueroa	284.7	302.5	312.5	3.3	9.8	4.5
Michelson	317.8	328.6	334.6	1.8	5.3	5.3
Peachtree	175.0	182.1	186.7	2.5	6.7	5.8
Total/ Weighted Average	777.5	813.2	833.8	2.5	7.2	5.1

Source: Company

Exhibit 4: Proactive Capital Management

100% Fixed Rate Loans with No Near-term Refinancing Gearing Ratio Reduced Increasing Debt Head Room

	As at 3Q2016	As at 4Q2016
Gross Borrowings	US\$296.0 million	US\$296.0 million
Gearing Ratio	34.7% ¹	33.8% ¹
Weighted Average Interest Rate	2.46% p.a.	2.46% p.a.
Debt Maturity (weighted average)	4 years	3.6 years
Interest Coverage	5.2 times ²	5.3 times ²

(1) Based on gross borrowings as percentage of total assets

(2) Based on net income before finance expenses, taxes, fair value gain on properties and amortisation, over finance expenses. Including fair value gain on investment properties, the interest coverage would be 15.5 times during the 20 May 2016 to 31 Dec 2016 reporting period

Source: Company

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