MANULIFE US REIT

BUY

Share Price:	US$0.84
Target Price:	US$0.93
Upside:	10.7%

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.

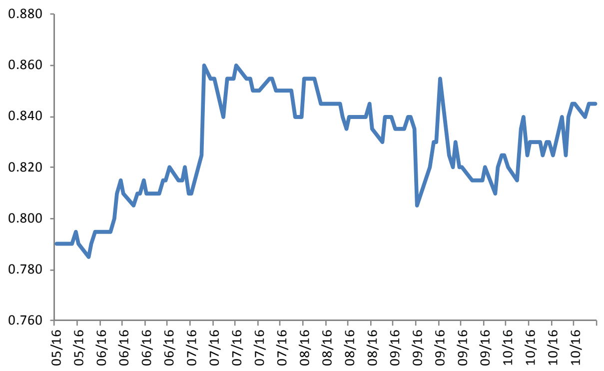
The initial portfolio has an aggregate net lettable area of approximately 1.8 million sq ft and an occupancy rate of 96.5% as at 31-Dec-15. Manulife US Real Estate Investment Trust was listed on the Main Board of the SGX-ST at US$0.83 on 20-May-16.

Name	Manulife US REIT
Bloomberg Code	MUST SP Equity
3M Avg Daily Trading Vol (k)	6,084.2
3M Avg Daily Trading Val (US$'000)	5,081.9
Major Shareholder / Holdings	Manulife Financial Corp / 7.48%
Shares Outstanding (m)	625.5
Market Capitalisation (US$m)	528.6
52 week Share Price High/Low	US$0.865 / US$0.77

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	4.3	0.6	N.A.

PRICE CHART



Source : Bloomberg

UNIQUE EXPOSURE TO U.S. OFFICE REAL ESTATE SPACE

Presently trading at 7.2% FY17E distribution yield, we are recommending a BUY on Manulife US Real Estate Investment Trust with a target price of US$0.93. We believe that it should trade up to 6.5% distribution yield as we apply a 10% discount to the sector average of 5.9% FY17E distribution yield (see Exhibit 1), due to overseas assets and high gearing of 37%. Our Buy recommendation is premised on:- (i) current distribution yield at 6.7% higher than the sector average of 5.8%; (ii) potential growth both organically and inorganically; (iii) quality assets in strategic locations; and (iv) the stronger US$ as the Federal Reserve starts tightening monetary policy in Dec'16.

Slated to beat its own FY17 distribution forecast. Manulife US REIT announced in Jul-16 that it had refinanced a US$296mln loan which effectively lowers its weighted average interest rate from 2.80% to 2.46% per annum over an average of four years. Due to the lower interest costs, Bloomberg consensus is now looking for the REIT to register more growth in net income after tax for FP16 and FY17 to US$27.2mln and US$30.8mln respectively. Additionally, forecasts are now looking for the REIT to pay a DPU of 6.05 US cts in FY17, as compared to Manulife US REIT's own projection of 5.87 US cts as stated in its IPO prospectus before the loan refinancing exercise.

Positive rental reversions of 2.5% to 3.5%. The properties of Manulife US REIT are well-positioned to experience strong organic growth delivered through built-in rental escalations from committed leases and potential rent reversions from the renewal of expiring leases, as seen in Exhibit 6. Approximately 99.1% of existing leases by net lettable area have some form of built-in rental increases. These comprise 80.2% which have annual rental escalations, generally ranging from 2.5% to 3.5%, and 18.9% which have mid-term or periodic rental increases. These rental increases provide a visible and growing rental income stream.

Growing through acquisitions. Manulife US REIT is targeting to acquire one asset per year, on top of its current three office buildings. Coupled with the organic growth it is slated to experience due to the positive rental reversions as mentioned above, we thus opine that this could lead to earnings growth and boost DPU going forward.

KEY FINANCIALS

December YE	FY13	FY14	FY15	FP16(E)*	FY17(E)
Revenue (US$, mln)	69.8	70.0	70.9	78.7	79.3
Net Property Income (US$, mln)	43.4	43.5	44.2	48.7	48.6
Net Income after tax (US$, mln)	22.8	24.0	26.0	27.2	30.8
EPU (US cents)	3.65	3.84	4.15	4.32	4.84
EPU Growth (%)	N.M.	5.2	8.1	4.1	12.0
P/E (x)	22.8	21.7	20.0	19.1	16.9
P/B (x)	N.M.	N.M.	1.1	1.1	1.1
ROE (%)	N.M.	N.M.	5.3	6.1	6.8
Distribution Per Unit (US cents)	0	0	0	5.61	6.05
Distribution Yield	0	0	0	6.7	7.2

* May-16 to Dec-16

Source: Company, Bloomberg

Singapore Research Team
Tel: 6533 0595
Email: research@limtan.com.sg

MANULIFE US REIT

Exhibit 1: Higher Distribution Yield As Compared To The Sector Average

Company	Price ($)	Mkt cap ($m)	Float (%)	Curr DPU (cents)	Fwd DPU (cents)	Curr Yield (%)	Fwd Yield (%)	Debt-to-Asset (%)	P/B (x)
CapitaLand Commercial Trust	1.585	4695.6	67.9	8.90	9.10	5.6	5.7	37.8	0.9
Keppel REIT	1.08	3540.5	53.7	6.70	6.60	6.2	6.1	39	0.7
Suntec REIT	1.68	4256.4	80.9	10.00	10.00	6	6	36.6	0.8
Mapletree Commercial Trust	1.535	4403.4	66.2	8.40	8.70	5.5	5.7	37.3	1.2
Sector Average						**5.8**	**5.9**	**37.7**	**0.9**
Manulife US REIT *	0.84	528.6	92.4	5.61	6.05	6.7	7.2	36.8	1.1

** In US dollar*

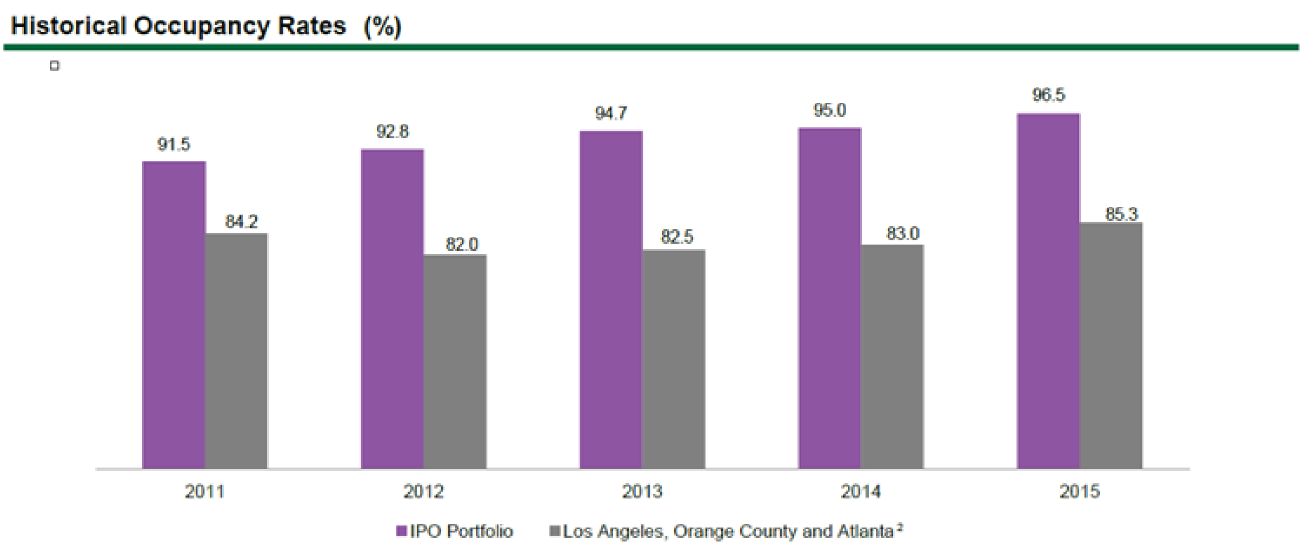
Source: Company, Bloomberg

QUALITY ASSETS

- All the Manulife US REIT's three office buildings are of high quality due to their (a) strategic location across prime areas of key U.S. cities, (b) modern or recently refurbished buildings with freehold land titles, (c) diversified tenant base with strong tenants, (d) favourable lease profile and long WALE, and (e) high occupancy rates with track record of consistently outperforming the market.

  As seen in Exhibit 2, occupancy rates in the three office buildings have historically outperformed their counterparts within the same areas. As depicted in Exhibit 3, Manulife US REIT's properties are located in Downtown Los Angeles (Figueroa), Irvine, Airport Area, Orange County (Michelson), and Midtown, Atlanta (Peachtree).

Exhibit 2: Consistent And Stable Occupancy Rates In REIT's Portfolio



Source: Company, Colliers International Independent Market Research Report (18-Feb-16)

MANULIFE US REIT

Exhibit 3: Portfolio Overview

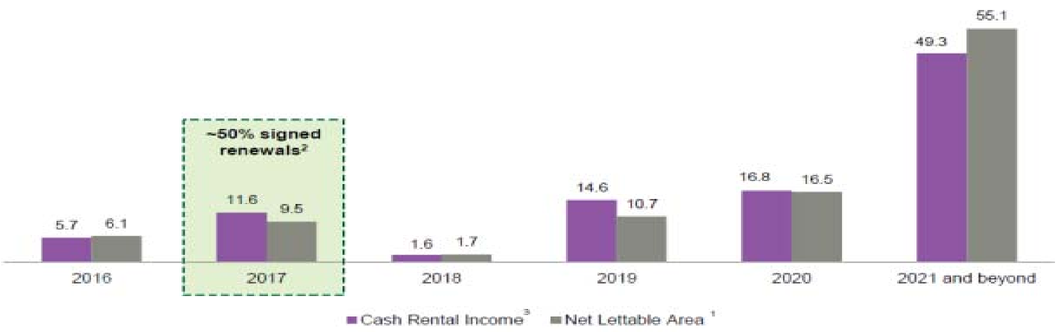
	Figueroa	Michelson	Peachtree	Portfolio
Location	Los Angeles	Irvine	Atlanta	
Property Type	Class A	Trophy	Class A	
Completion Date	1991	2007	1991	
Last Refurbishment	2015	-	2015	
Valuation (Colliers)[1]	US$296.0m	US$324.0m	US$179.0m	US$799.0m
Valuation (RERC)[1]	US$263.0m	US$310.0m	US$168.0m	US$741.0m
Purchase Price[2]	US$284.7m	US$317.8m	US$175.0m	US$777.5m
Net Property Income[3]	US$16.0m	US$20.7m	US$11.9m	US$48.6m
Occupancy[4] (%)	98.2%	95.7%	95.1%	96.5%
NLA (sq ft)	692,389	533,581	553,581	1,779,748
WALE[4] (by NLA)	5.2 years	4.6 years	7.4 years	5.7 years
Land Tenure	Freehold	Freehold	Freehold	100% Freehold
No. of Tenants[4]	33	16	25	74

Source: Company

Exhibit 4: Favorable Lease Profile With Long WALE Of 5.7 yrs

Well Spread Lease Expiry Profile

Lease Expiry Profile[1] (%)



(1) As at 31 Dec 2015
(2) The Property Manager has recently executed a lease renewal with Gibson Dunn, extending their current lease term to 2028
(3) For the month of Dec 2015. Cash rental income refers to rental income and recoveries income after adjusting for straight-line adjustments and amortisation of tenant improvement allowance and leasing commissions

Source: Company

Of note, as reflected in Exhibit 5, the recent leases signed by Manulife US REIT generally have been entered at higher rents as compared to the peer averages. Taken together, we thus believe that these attributes positively reflect the quality of Manulife US REIT's assets.

Exhibit 5: Recent Leases Entered At Higher Rents

Rental Rates (US$ psf per year)

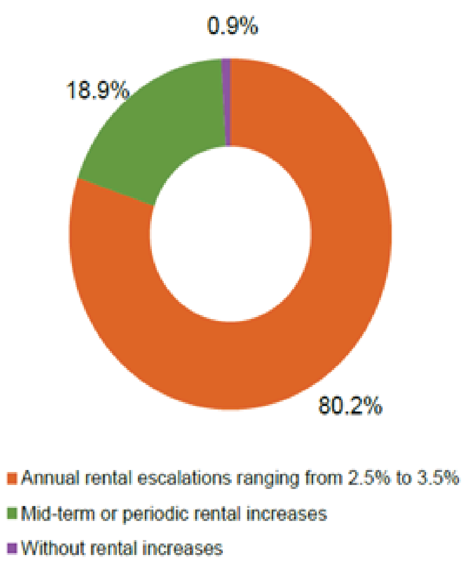
Building	Property Average Gross Rent[1] (US$)	Recent Leases[2] (US$)	Collier's Submarket Forecast Rental Rate[3] (US$)	Collier's Submarket
Figueroa	35.1	39.5 - 40.5	40.8	Class A South Park, Downtown Los Angeles
Michelson	47.5	44.0 - 51.0	35.3	Class A Airport Area, Orange County
Peachtree	30.0	32.0	29.3	Class A Midtown, Atlanta

(1) As of Dec 2015
(2) Signed new leases in 2016 before IPO (20 May 2016)
(3) Colliers International Independent Market Research Report (18 Feb 2016)

Source: Company, Colliers International

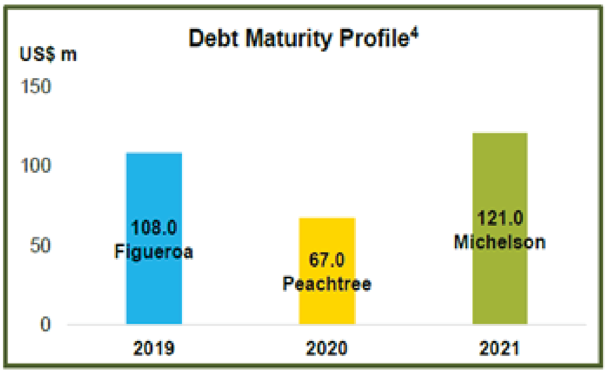
Exhibit 6: Visible Distribution Growth

99.1% [1] of Leases by NLA have Rental Escalations



100% Fixed Interest Rate Locked-in at Current Rates

Gross Borrowings	US$296.0m
Aggregate Leverage	36.8%[2]
Interest rate	Locked-in weighted average interest rate of 2.46% p.a.
Debt Maturity	Weighted average: 4.0 years
Interest Coverage	4.6 times[3]



(1) As at 31 Dec 2015
(2) Based on total assets as at 31 Dec 2015 pro forma balance sheet
(3) Based on 2017 forecast in Prospectus
(4) No refinancing required until 2019. Excludes Good News Facility of US$31.8 million and US$10.0 million Revolving Credit Facility, both of which have not been drawn down

Source: Company

NO 30% WITHHOLDING TAX

- While foreign investors looking to acquire US office assets are usually subjected to a 30% withholding tax on dividends/distributions, the efficient tax vehicle structured by Manulife US REIT allows Singapore investors to largely avoid this. Therefore, any distributions paid out by Manulife US REIT are on a post-tax basis and would not be subjected to any withholding tax[1]. We therefore opine that Manulife US REIT offers an efficient way for investors looking to gain exposure to US office assets.

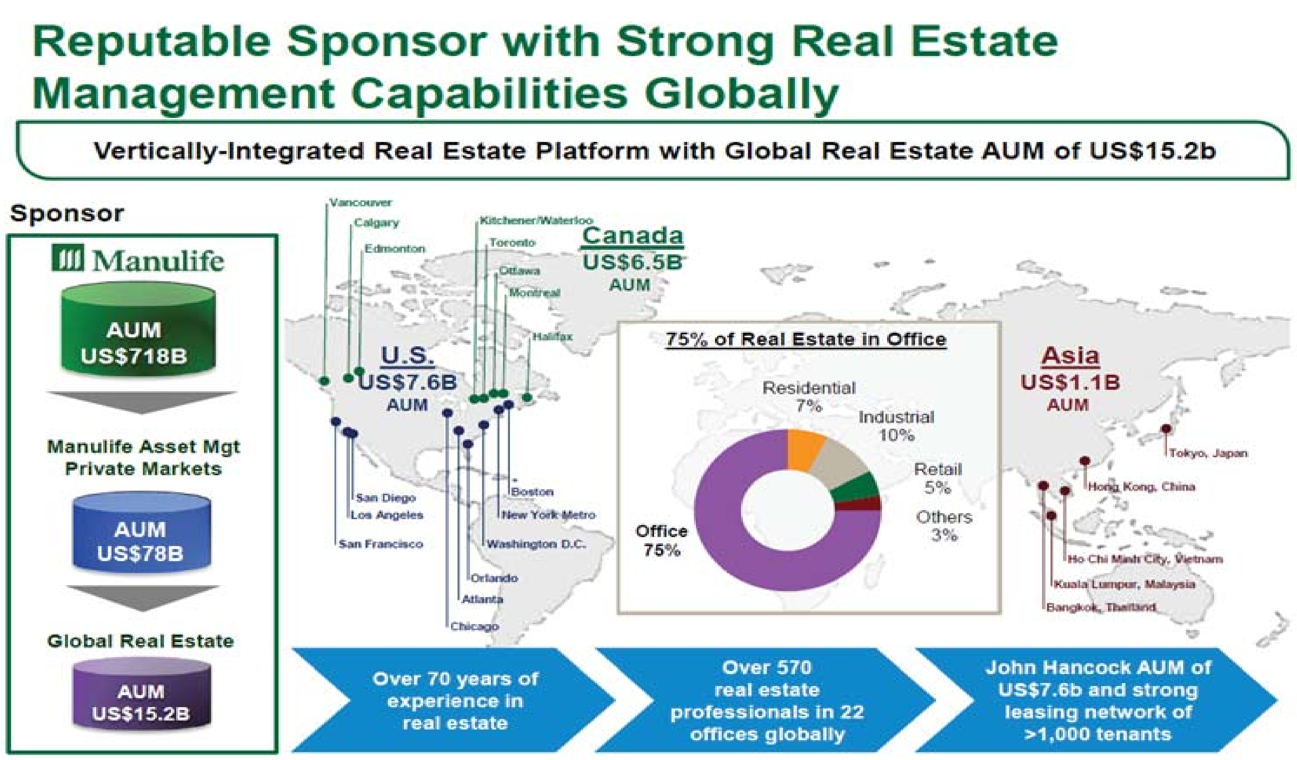
1: For a non U.S. person making a W-8BEN filing

A REPUTABLE SPONSOR

- The sponsor, The Manufacturer's Life Insurance Company, is part of the Manulife group, a leading Canada-based financial services group with more than US$676bln n assets under management and administration as at 30 June 2016. Manulife Real Estate is the fully-integrated real estate management platform of the sponsor that oversees Manulife's real estate portfolio, as well as those of external clients.

  Manulife Real Estate has a strong presence in global office real estate markets, as depicted in Exhibit 7. As at 30 June 2016, Manulife Real Estate has US$15.2bln of real estate AUM globally, of which US$7.6bln are located in the U.S. Through its sponsor, Manulife US REIT can thus benefit accordingly from the former's local expertise & presence and strong acquisition capability.

Exhibit 7: Financial Strength Of The Sponsor



Source: Company

MANULIFE US REIT

POSITIVE OUTLOOK

- **Favourable office real estate sector outlook.** Growth in the U.S. office sector has been supported by both tight office supply and growing demand for office space, driven by the recovery in office employment and the expanding technology sector, according to Colliers International. Recovering office employment was led by the professional and business services sector, which has added nearly two jobs for every one lost during the recession. Meanwhile, the expansion of technology companies and the opening of innovation offices by non-technology firms have, in turn, driven demand for office space in urban areas and traditional technology enclaves with residential and recreational amenities.

Exhibit 8: Overview Of Demand & Occupancy Trends

Demand & Occupancy Trends - Overview

Demand for Office Space Driven by Technology and other Creative Sectors

Top 10 Metros	5-year Gross Metro Product Growth Forecast (2015-2020)	5-year Employment Growth Forecast (2015- 2020)	Under Construction as a % of inventory
Atlanta, GA	20.6%	11.5%	0.8%
Dallas, TX	16.3%	13.2%	3.0%
Boston, MA	15.5%	6.3%	2.6%
Houston, TX	15.2%	11.1%	3.5%
Washington, D.C.	14.4%	6.5%	1.7%
Seattle, WA	14.0%	8.8%	5.2%
Los Angeles, CA	12.7%	7.9%	2.1%
Chicago, IL	11.2%	7.0%	1.1%
Manhattan, NY	8.9%	5.2%	2.2%
San Francisco, CA	8.0%	7.8%	5.4%
U.S.	13.1%	7.5%	1.8%

- U.S. economy to continue its moderate growth
- Both occupancy and asking rents will continue to grow at a more moderate pace
- Markets of strong growth (inclusive of Atlanta) are driven by:
  - Robust activity in tech firms
  - Strong growth in professional services
  - Influx of corporate relocations for more business-friendly environments
- Investors moving into secondary markets as gateway markets reach peak pricing
- U.S. will remain the safe haven of choice for foreign investment as uncertainty remains across Europe and Asia.

Source: Company, Colliers International Q4 2015

A REPUTABLE SPONSOR

- **May need to engage in equity fund raising.** We understand that Manulife US REIT is looking to maintain their net gearing in the 35% - 40% range. With their net gearing currently at around 37%, Manulife US REIT may need to tap the equity market for funds should it wish to stick to its target of acquiring one asset per year. We estimate that should they engage in a share placement exercise to raise the maximum 20% allowed, Manulife US REIT should be able to raise funds of around US$105mln under current valuations.

  Absence of ROFR. Manulife US REIT's sponsor is unable to extend right of first refusal (ROFR) to them for future acquisitions given that Manulife US REIT is a registered investment adviser in the U.S. under the John Hancock brand. We understand that under US regulations, investment managers are not allowed to favour one client over another. We thus view this to be a negative aspect, given that other S-REITS usually have a ROFR from their respective sponsors for asset acquisition.

RESEARCH DISCLAIMER

This report is intended for clients of Lim & Tan Securities Pte Ltd [herein after termed as LTS] only and no part of this document may be –

- **i.** Copied, photocopied, duplicated, stored or reproduced in any form by any means or
- **ii.** Re-distributed or disseminated, directly or indirectly, to any other person in whole or in part, for any purpose without the prior consent of LTS.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult your independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information, tools and material presented herein this report are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject LTS to any registration or licensing requirement within such jurisdiction.

The information and opinions presented in this research report have been obtained or derived from sources believed by LTS to be reliable. Their accuracy, completeness or correctness is, however, not guaranteed. Opinions and views expressed in this report are subject to change without notice, and no part of this publication is to be construed as an offer, or solicitation of an offer to buy or sell securities, futures, options or other financial instruments or to provide investment advice or services. Therefore, LTS accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. LTS may have issued other reports that are inconsistent with the assumptions, views and analytical methods of the analysts who prepared them.

LTS, its directors, its connected persons and employees may, from time to time, own or have positions in any of the securities mentioned or referred to in this report or any securities related thereto and may from time to time add to or dispose of or may be materially interested in any such securities. LTS's research analysts are primarily responsible for the content of this report, in part or in whole, and certifies that the views about the companies expressed in this report accurately reflect his personal views. LTS prohibits the research analysts who prepares this report from receiving any compensation (excluding salary and bonuses) or other incentives and benefits receivable in respect of this report or for providing specific recommendation for, or in view of a particular company or companies mentioned in this report.

LTS-SPECIFIC / REGULATORY DISCLOSURE

1. LTS does not have a proprietary position in the company / companies as recommended in this report as at the close of 03/11/16.

2. The research analysts do not hold *interests in the company / companies as recommended in this report as at the close of 03/11/16.

* *Includes direct or indirect ownership of securities or Futures Contracts (excluding the amount of securities or Futures Contracts owned), directorships or trustee positions.*