Manulife US REIT

Version 2 | Bloomberg: MUST SP | Reuters: MANU.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2016

BUY

Last Traded Price (7 Oct 2016): US$0.82 (STI : 2,875.24)
Price Target 12-mth: US$0.93 (14% upside)

Potential Catalyst: Acquisitions
Where we differ: Estimates are in line with consensus

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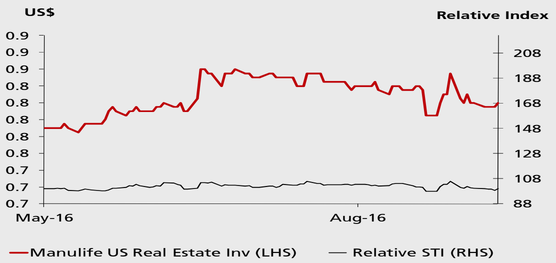
What's New

- **Site visit to properties and meetings with property brokers give us increased confidence on REIT's ability to beat forecasts**
- **Portfolio located in key submarkets that enjoy strong operational dynamics**
- **Acquisitions to further diversify geographic and tenant exposures**

Price Relative



Forecasts and Valuation

FY Dec (US$m)	2015A	2016F	2017F	2018F
Gross Revenue	71.0	78.7	79.3	80.7
Net Property Inc	44.2	48.7	48.6	49.5
Total Return	26.0	27.2	30.8	33.9
Distribution Inc	34.3	35.4	38.4	38.8
EPU (US cts.)	4.15	4.32	4.84	5.30
EPU Gth (%)	nm	4	12	9
DPU (US cts.)	5.48	5.61	6.05	6.06
DPU Gth (%)	nm	2	8	0
NAV per shr (US cts.)	78.4	76.7	75.6	75.0
PE (X)	19.8	19.0	16.9	15.5
Distribution Yield (%)	6.7	6.8	7.4	7.4
P/NAV (x)	1.0	1.1	1.1	1.1
Aggregate Leverage (%)	36.6	37.7	38.7	39.1
ROAE (%)	10.6	5.6	6.4	7.1

Distn. Inc Chng (%):	-	-	-
Consensus DPU (US cts.):	5.70	6.20	6.20
Other Broker Recs:	B: 2	S: 0	H: 0

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

Wait no longer

Play on exposure to the US property market which is in the early stages of recovery. We maintain our BUY call and TP of S$0.93. We continue to like Manulife US REIT's (MUST) strong organic growth prospects (CAGR of 5% over FY16-17F) which is one of the highest among REITs in Singapore. The expected strength of the USD/SGD exchange rate could potentially result in inflows into the stock.

Increased confidence on the REIT's ability to beat forecasts post site visit. Our recent visit to properties in the US and meetings with various property brokers indicate that market fundamentals remain firm. We believe that MUST's properties in Midtown Atlanta and Downtown Los Angeles submarkets will continue to see steadily increasing rents, continued expansionary tenant demand, increased employment opportunities and also a lack of competitive new supply. Apart from upside when leases come due, 80.2% of leases (by NLA) have annual rental escalations of between 2.5-3.5%, and 18.9% have provisions for mid-term or period rent increases. The REIT is expected to deliver consistent stable growth.

Acquisitions to be the next driver of growth. The manager has been disciplined towards acquisitions and we believe that any executed acquisitions will be accretive to distributions. Apart from that, we expect any acquisition to diversify the REIT's geographic earnings base and tenant concentration. Markets that are of interest are core submarkets that enjoy demand from a diversified type of industries (i.e. manufacturing, financial, technology and law firms) which imply stability across market cycles. We have not priced in acquisitions in our forecasts.

Valuation:

TP is maintained at US$0.93 based on DCF. The stock offers an attractive FY16-17F 6.8-7.4% yield.

Key Risks to Our View:

Lower-than-expected rental income. The key risk to our view is lower-than-expected rental income, arising from the non-replacement/renewal of leases and/or slower-than-expected recovery of office rents in the US.

At A Glance

Issued Capital (m shrs)	626
Mkt. Cap (US$m/US$m)	513 / 513
Major Shareholders (%)	
Manulife International	7.5
Free Float (%)	92.5
3m Avg. Daily Val (US$m)	0.69

ICB Industry : Financials / Real Estate Investment Trusts

WHAT'S NEW

Growth driven by strong market dynamics

A visit to the US and meeting with brokers. We visited MUST's portfolio of properties in the US, spoke to brokers and consultants and came away with increased confidence of the REIT's ability to drive distributions going forward and at the same time, we gained a better understanding of the operational and leasing environment going forward.

Supported by strong market dynamics and with a portfolio of properties in locations that we believe are preferred submarkets for tenants, we are optimistic on the organic rental growth outlook.

Positive outlook for most markets.

The initial portfolio that MUST offers exposure in continue to see positive market dynamics, which bodes well for rental growth and upside to earnings when leases are rolled over in the coming years. We estimate that close to 15.6% of the leases will be rolled over in the next two years and we expect positive rental reversions of between 3-5% when it happens.

The robust outlook is supported by: (i) increased employment opportunities and expansion plans on the back of improving corporate profits, (ii) a lack of competitive supply, and (iii) having assets with desirable property attributes that we believe will result in high retention rates going forward.

Downtown Los Angeles (Figure 4 – 7). According to JLL whom we met during our trip, Downtown Los Angeles is considered to be the financial and governmental hub of California. As such, Figueroa is able to tap a deep pool of tenants which includes a large concentration of firms from the legal, accounting and financial sectors, as well as several federal, state and local government agencies. We understand that financial institutions and law firms take up close to 65% of demand for office space, according to JLL. This explains the high exposure to such tenants at Figueroa.

Rental outlook remains stable and is supported mainly by: (i) existing tenant expansionary needs, and (ii) a lack of new completing supply with only the Wilshere Grand, a 376k-sqft office development expected to complete in 2Q17. With new residential and ancillary developments in the vicinity, we expect this to be supportive of tenant retention rates.

Atlanta market – strong market dynamics (figures 8-12). According to CBRE, Atlanta saw a 3.0% job growth (as of August 2016), ranking the city 2nd in the US. Close to 175,000 jobs were added in the past two years and the city is home to 18 Fortune 500 companies. We believe that Atlanta remains a desirable market for companies looking to set up offices and for investors in real estate.

We believe that Atlanta will be one of the key growth drivers for the REIT and are positive on the outlook for the submarket of Midtown where MUST's property - 1000 Peachtree - is located. Midtown sits in the centre of the urban core submarkets of Downtown Atlanta and Buckhead. Supporting by a good mix of retail, entertainment and dining amenities, we believe that Midtown is a preferred location to live, work and play for employees. As a result, Midtown sees one of the strongest net absorption of office space (375k sqft as of 1Q16) in Atlanta and sees low market vacancy rates of c. 12.2% (vs 14.0% industry average). Due to a lack of new competition and low vacancy rates, it is a landlords' market and we expect to see rental growth of c.5-6% per annum going forward. Tenant incentives are also falling, implying stronger bargaining power for landlords.

Orange County – attracting tenants of the new economy (figures 13-16). Orange County is one of South California's most diverse economies in terms of industry sectors, and a major manufacturing centre. It is a desirable coastal location with a high quality of life, attracting a young, well-educated and affluent population to the area. Key industries include finance, insurance, telecommunications, technology, real estate, engineering and professional services.

It is evident from our trip that the Michelson stands out as a property with "trophy" characteristics with no properties nearby with similar specifications. As a result, we expect tenants to remain sticky. In fact, we understand the manager has forward renewed the majority of leases that are up for renewal in 2017 (17.1% of NLA). While passing rents (in place) of US$47.50 psf per annum are at a premium against market comparables, recent new leases signed have achieved close to US$50.00 psf per annum meaning that the premium can be maintained. This is also supported by a lack of new supply currently under construction, with only Broadwalk, a 537k-sqft office development, as the new upcoming supply within the vicinity. Given the lack of expiries at the Michelson over the next two years, we expect performance to remain stable.

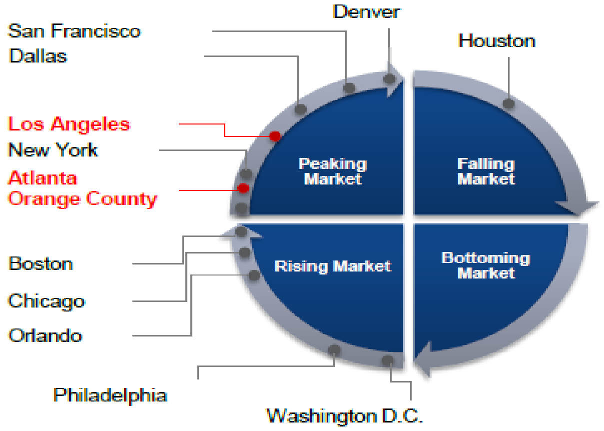
Acquisitions to complement growth prospects. Tapping on the experience, expertise and network of its Sponsor Manulife Financial Group, we believe that MUST has the ability to gain access to acquisition opportunities when they come by.

The manager adopts a disciplined approach towards the execution of acquisitions. One of the key considerations is that any deal will have to be accretive to unitholders' distributions. Apart from that, it also seeks to diversify the REIT's geographic earnings base and tenant concentration. The manager is reviewing assets in core locations in office markets that are supported by a diversified type of industries (i.e. manufacturing, financial, technology and law firms). This means that MUST's performance will remain resilient across market cycles.

With gearing already at 36.8%, the REIT could potentially acquire up to US$150m worth of properties, assuming the target gearing level remains the same. We estimate that close to US$100m of equity needs to be raised.

Portfolio Characteristics

Figure 1: Robust Market Dynamics



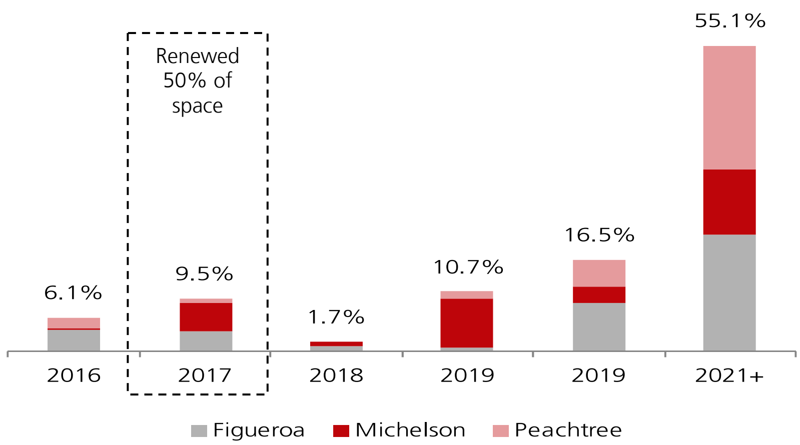
Source: Company, JLL, DBS Bank

Remarks

MUST's properties are mainly located in cities that continue to enjoy an upswing in spot rents in the medium term, according to JLL as of 2Q16.

This bodes well for the REIT's organic growth performance going forward.

Figure 2: Weighted Average Lease Expiry (WALE) of 5.7 years



Source: Company, DBS Bank

Remarks

MUST has a long WALE of 5.7 years, implying strong earnings visibility and stability for unitholders.

As a percentage of NLA, the REIT will be rolling over only c.17.3% of its leases over 2016-2018 of which the manager has renewed c.50% of space expiring in 2017. Gibson Dunn, a major tenant at the Michelson, extended their lease to 2026.

As a result, we expect the REIT's performance to remain resilient.

Figure 3: Rental Reversions have generally been healthy

Property / (% portfolio value)	Property Average Gross Rent (US$ psf p.a.)	Recent Leases (US$ psf p.a.	Colliers Forecast market rent (US$ psf p.a	Submarket
Figueroa (36.6%)	35.1	39.5-40.5	40.8	Class A South Park, Downtown Los Angeles
Michelson (40.8%)	47.5	44.0-51.0	35.3	Class A Airport Area, Orange County
Peachtree (22.6%)	30.0	32.0	29.3	Class A Midtown, Atlanta

Source: Company, Colliers, DBS Bank

Downtown Los Angeles submarket / Figueroa Building

Figure 4: Robust Market Dynamics (2Q16)

RBA (mil sqft)	Vacancy (%)	Gross Asking Rent (US$ psf p.a.)	Availability (%)	Net Absorption ('000 sqft)	Under Construction ('000 sqft)
40	14.5%	US$36.99	19.3%	456	376

Deliveries (12 mth) ('000 sqft)	Net Absorption (12 mth) ('000 sqft)	Vacancy	Rent Growth
217	819	11.9%	2.5%

Remarks

Significant net absorption of Class A buildings for the quarter implying that the market is likely to turn more favourable for landlords going forward.

Over the past 12 months, we have also seen positive rent growth for the Greater Downtown Los Angeles market (including peripheral areas).

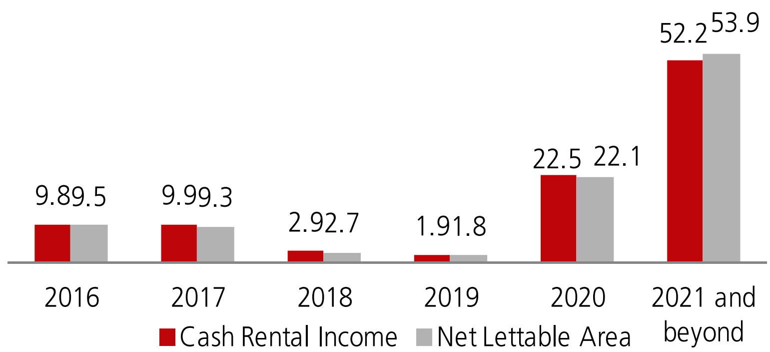
Source: Company, Colliers, DBS Bank

Figure 5: Limited Completions in the Downtown Los Angeles area are supportive of rent growth for Figuera

Property	Summary		Remarks
	Property :	Office Plaza at Wilshire Grand (mixed development)	We note that the Wilshire Grand is the only office development in the Los Angeles Submarket completing in 2017. No leases have been signed at this point while market chatter is that the developer – Korean Airlines – will be taking a substantial portion of the space there.
	Stories:	30	
	Available Space (000' sqft):	370,000 sqft	
	Expected Delivery:	2017	

Source: Company, Colliers, DBS Bank

Figure 6: Weighted Average Lease Expiry (WALE) for Figueroa



Source: Company, Colliers, DBS Bank

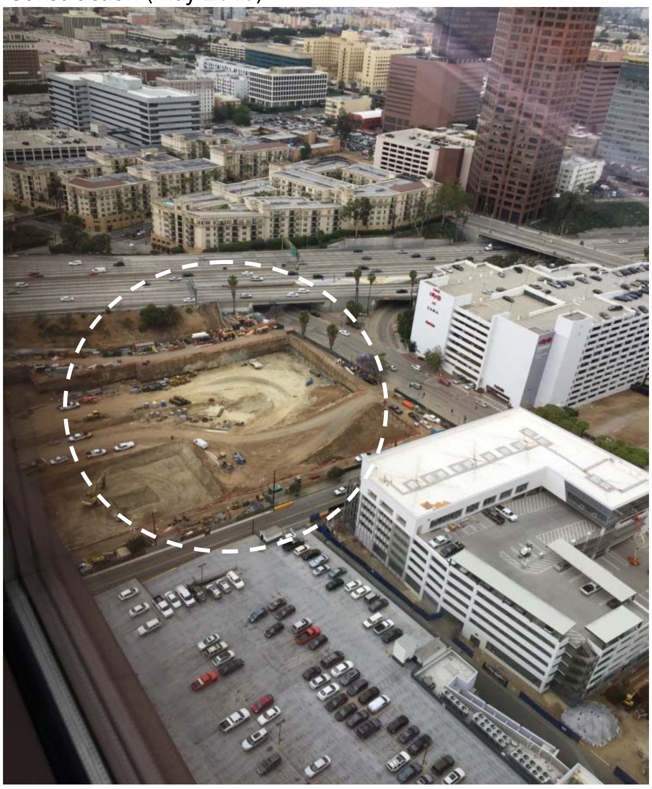
Remarks

MUST will be renewing close to 20% of total leases expiring in Figueroa over 2016-2017. While it appears significant, we remain comforted by the strong property attributes coupled with lack of competing alternatives in the vicinity.

Competing Class A properties have also limited vacancies, according to JLL and this is expected to support tenant retentions going forward, in our view.

Figure 7: Construction in the vicinity of Figueroa Building

Construction (May 2015)



Construction (Oct 2016)

Remarks

We note that Greenland is building a mixed residential, hotel development next door to Figueroa.

When completed in 2017, with new supporting amenities and residential catchment in the area, we expect this development to add to the buzz in the South Park area. This will be a positive development for the desirability of the property going forward.

Source: Company, Colliers, DBS Bank

Orange County submarket

Figure 8: Location of Michelson

Source: Company, CBRE, DBS Bank

Remarks

According to Colliers, the Airport Area submarket is a relatively new and moderate density office market in Orange County with 27% of the space in Class A buildings. Irvine, where the Michelson is located, offers workers a highly desirable work-life balance, and is served by highly rated public schools which make it a preferred location for the majority of professional business services and technology sector firms.

Figure 9: Robust Market Dynamics (2Q16)

RBA (mil sqft)	Vacancy (%)	Gross Asking Rent (US$ psf p.a.)	Availability (%)	Net Absorption ('000 sqft)	Under Construction ('000 sqft)
14	11.2%	US$31.31	24.1%	(42)	537

Deliveries (12 mth) ('000 sqft)	Net Absorption (12 mth) ('000 sqft)	Vacancy	Rent Growth
0	(123)	9.2%	10.0%

Source: Company, Colliers, JLL, DBS Bank

Remarks

Absorption for class A properties has been negative in recent quarters.

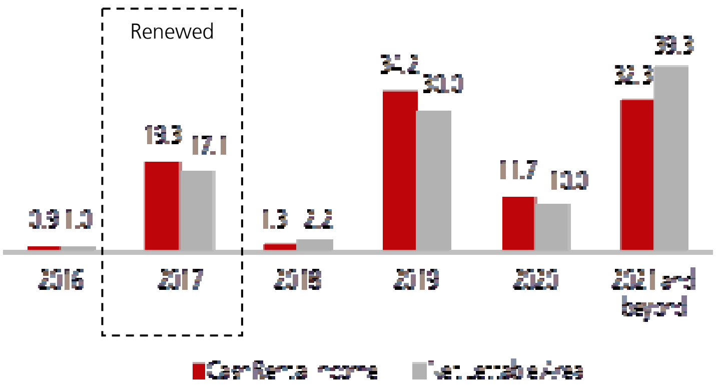
Over the past 12 months, we have also seen positive rent growth despite negative net absorption, indicating a flight to quality for tenants.

Figure10: Midtown Atlanta market expected to outperform other sub-markets

Property	Address	Stories	Space 000' sqft	Expected Delivery	Developer	Remarks
The Boardwalk	Jamboree & Dupont Drive	22	9	2017	Trammell Crow Company	A direct competitor to the Michelson property in terms of location and specifications. However, the manager believes that minimal expiries and significant capex spent by their existing tenants will be a barrier to moving.

Source: Company, CBRE, DBS Bank

Figure 11: Weighted Average Lease Expiry (WALE) for Michelson

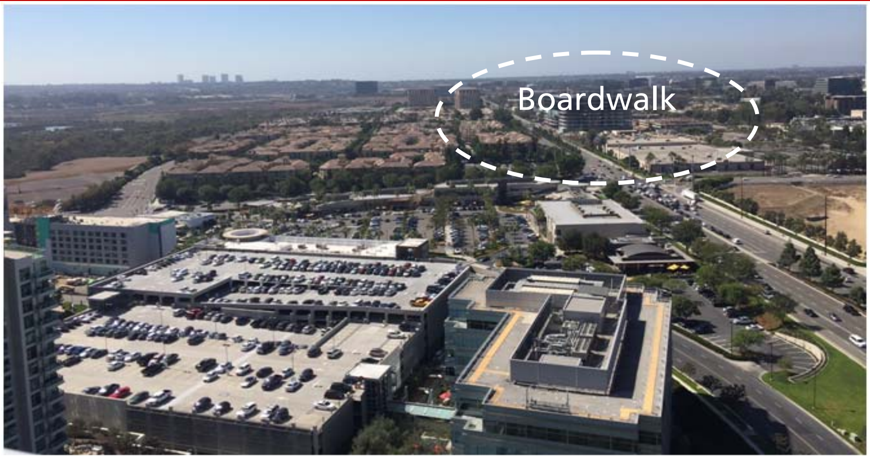


Source: Company, DBS Bank

Remarks

The manager has forward renewed the lease expiry in 2017. Gibson Dunn, a law firm, has renewed ahead of expiry with a 10-year term till 2026.

Figure 12: Site Visit Pictures



Source: Company, DBS Bank

Remarks

The Boardwalk is a 9-storey complex with minimal supporting amenities. Tenants at Michelson will have access to better amenities and a better view of Orange County.

Developments in the vicinity of Michelson are mainly zoned for residential developments as it is understood to be deemed as "best use" or the property type that offers the highest returns to investors.

Atlanta submarket

Figure 13: Location of Pitchtree

Source: Company, CBRE, DBS Bank

Remarks

According to Colliers, Midtown has experienced a high-rise residential boom which has resulted in a large proportion of available land being used for residential developments rather than new offices.

As Peachtree is located along the "Midtown Mile" a stretch of office, retail and multi-family developments, the onsite amenities are complemented by the numerous retail, restaurant and hotel offerings nearby.

Figure 14: Midtown Atlanta market expected to outperform other sub-markets

Market	Inventory mil sqft	Overall Vacancy (%)	Class A Vacancy (%)	YTD Absorption 000' sqft	YTD Deliveries 000'sqft	Under construction 000'sqft	% of inventory	Class A Rates US$ per sqft p.a.
Northwest Atlanta	32.0	14.4%	12.4%	270.0	16	1,208.9	4%	25.57
Buckhead	21.1	11.0%	11.9%	(22.0)	40	682.8	3%	32.99
Central Perimeter	28.3	13.2%	10.8%	(24.0)	0	972.4	3%	27.67
Downtown Atlanta	25.9	16.1%	20.2%	(144.4)	0	77.2	0%	23.53
Midtown Atlanta	20.9	12.7%	12.2%	375.0	0	704.5	3%	28.92
North Fulton	25	12.5%	10.9%	189.0	38	38.5	0%	23.69
Northeast Atlanta	22.3	21.9%	12.4%	(49.0)	43	126	1%	20.93
Northlake	18.5	12.6%	12.2%	5.0	0	65.7	0%	19.81
South Atlanta	12.9	12.5%	18.7%	(68.0)	0	0	0%	19.83
West Atlanta	2.5	8.1%	7.6%	(8.0)	0	118	5%	34.42
Total	209.4	14.20%	14.0%	523.9	136.6	4341.1	2%	26.04

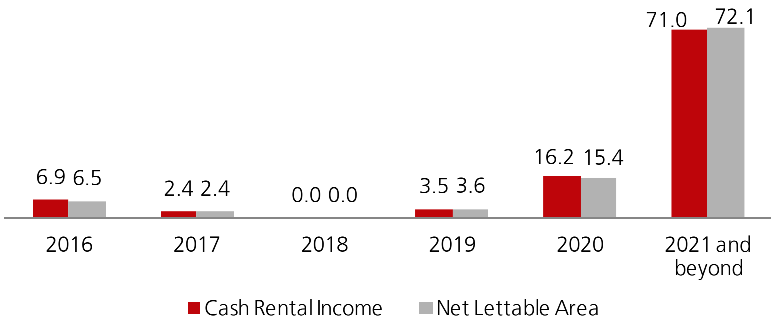
Source: Company, CBRE, DBS Bank

Figure15: Midtown Atlanta market expected to outperform other sub-markets

Property	Address	Stories	Space 000' sqft	Expected Delivery	Developer	Remarks
NCR Corp HQ	864 Spring Street	22	485	2018	Cousins Property Inc	A majority of upcoming supply under construction are built-to-suit properties that are 100% pre-leased.

Source: Company, CBRE, DBS Bank

Figure 16: Weighted Average Lease Expiry (WALE) for Peachtree



Source of all data: Company, DBS Bank

Remarks

With 6.9% and 2.4% of leases up for renewal over FY16 and FY17 respectively, Peachtree should also benefit from the projected rise in spot rents from US$31.7 psf in 2015 to S$39 psf in 2017. The growth in rents is underpinned by constrained office supply.

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Exposure to the recovery of US real estate market. According to Colliers International (Colliers), the office market outlook for Downtown Los Angeles, Orange County and Atlanta are attractive given (i) rising demand due to projected falling unemployment rates on the back of a pick-up in business activities, and (ii) a deep pool of local talents and skilled workers which attract companies to set up and maintain their presence there.

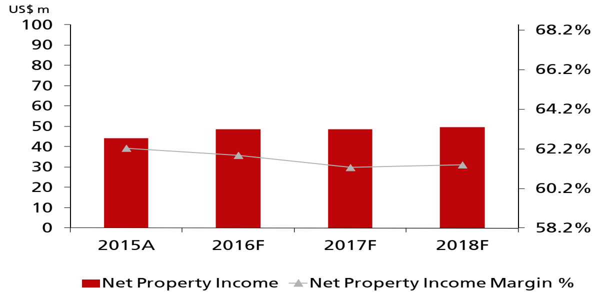
The sub-markets where Manulife US REIT's properties are located are also characterised by a lack of new competitive supply due to limited land availability and high construction costs. Given supportive market dynamics, Colliers expects Class A rents in the respective markets to improve by 1.5-23.0% per annum over 2015-2017. Through the initial portfolio and potential acquisitions in the future, we believe that MUST offers a cyclical recovery story, with rents and capital values at or close to an upswing, underpinned by improved business activity in the US and real estate values that are off previous highs.

Inbuilt organic growth. MUST's properties are well positioned to experience strong organic growth delivered through built-in rental escalations embedded into their lease contracts. As at 31 December 2015, (1) approximately 80.2% of leases (by NLA) for the initial portfolio have built-in annual rental escalations, the majority of which are between 2.5-3.5%, and (2) 18.9% of leases (by NLA) have mid-term or period rent increases, thus providing a visible and growing rental income stream.

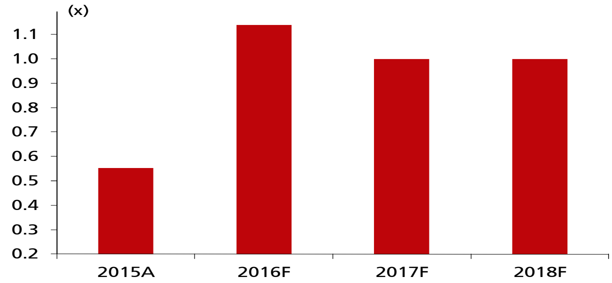
Long WALE of 5.7 years offers strong income visibility. With leases typically signed on a 3- to 10-year lease and some in excess of 10 years, the initial portfolio enjoys a long WALE of 5.7 years (by NLA) as at 31 December 2015. As such, the initial portfolio has minimal expiries in the following years - only 6.1% and 9.5% of its leases are expiring in 2016 and 2017 respectively, and we are expecting these leases to revert positively when leases are due for renewal.

Growth through acquisitions by tapping into the expertise of its Sponsor. MUST's Sponsor is The Manufacturer's Life Insurance Company, which is part of Manulife Financial Group, a Canada-based financial services group. Through its subsidiary, Manulife Real Estate (MRE), the Sponsor has a strong acquisition capability and track record, demonstrated by the acquisition of 85 properties worth US$6.2bn since 2010. This has resulted in a compound annual growth rate of 17.5% per annum in the value of MRE's AUM. Therefore, we believe MUST will be able to tap on its Sponsor's real estate platform, to source deals, access local market expertise and gain assistance in securing financing to grow its portfolio through DPU-accretive acquisition in the US.

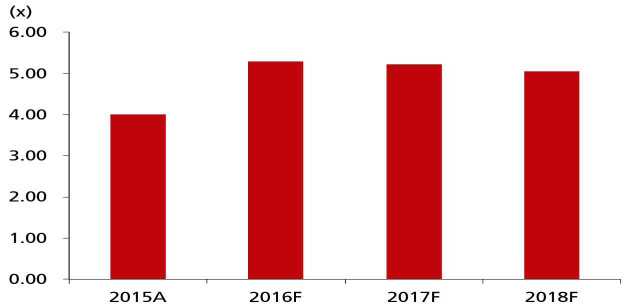
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Stable gearing. Post listing, MUST's initial gearing is c.37%. Assuming no revaluation gains on its property portfolio, we expect gearing to be relatively stable going forward or even decline in anticipation of potential positive revaluation come year-end December 2016.

Conservative interest rate profiles. To manage its interest rate risks, MUST has hedged 100% of its interest exposure for the next 3-5 years at an interest rate of 2.46%.

Share Price Drivers:

Establishing a track record. A key push back from potential investors is the lack of familiarity with the US office market, which we believe after a few quarters of strong results, will allay most of investors' concerns. This may lead to a re-rating of the stock. Another key share price driver is the potential outperformance relative to MUST's IPO forecast. This could be driven by stronger-than-expected recovery of the US office market leading to higher rental reversions.

Key Risks:

Risk of non-renewal and non-replacement of leases. MUST's financials, results of operations, and capital growth may be adversely affected by bankruptcy, insolvency or downturn in the businesses of one or more of the tenants, as well as the decision by one or more of these tenants not to renew their lease/s at the end of a lease cycle.

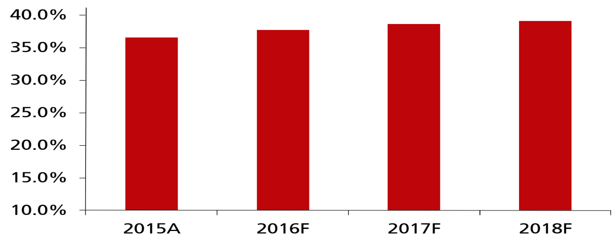
Foreign currency risks. All of the REIT's assets are located in the US and generate revenues in USD. Thus, investors who elect to receive distributions in SGD have exposure to volatility in the USD/SGD FX rate. This is mitigated should investors elect to receive distributions in USD.

Regulatory Risks. The tax efficiency of MUST relies in part on its Parent US REIT and Sub-US REITs being able to maintain their status as US REITs as well as qualifying for US. Portfolio interest exemption when repatriating cashflows back to Singapore as interest. Should there be any changes in tax or REIT regulations in either the US or Singapore which affect the current REIT structure or ability to repatriate cash in a tax-efficient manner, distributions paid to MUST's unitholders may be adversely impacted.

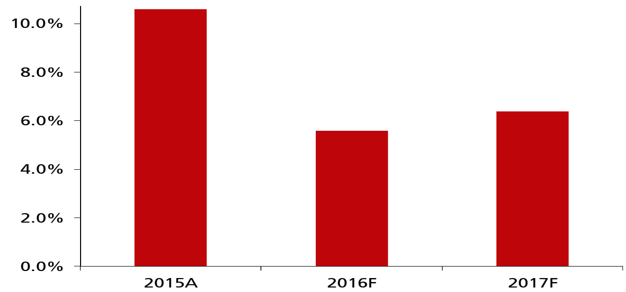
Company Background

Manulife US REIT (MUST) is the first pure-play US office REIT listed in Asia. Its portfolio consists of three freehold, Class A or Trophy quality office properties in Atlanta, Los Angeles, and Orange County with aggregate net lettable area (NLA) of c.1.8m sqft.

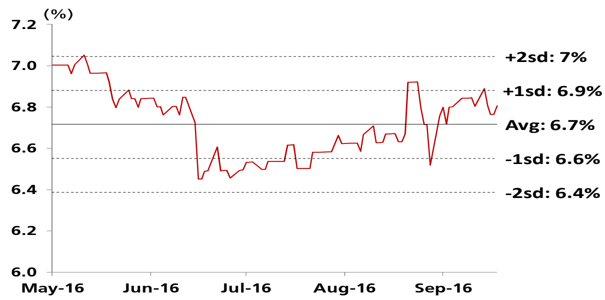
Aggregate Leverage (%)



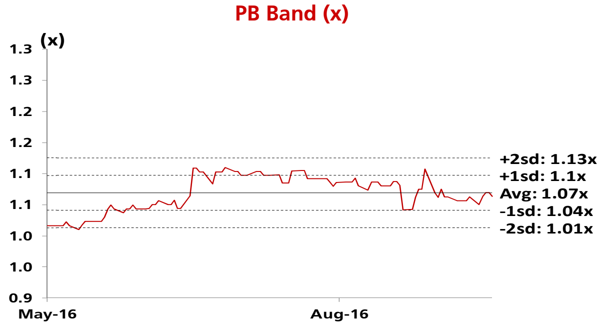
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (US$m)

FY Dec	2015A	2016F	2017F	2018F
Gross revenue	71.0	78.7	79.3	80.7
Property expenses	(26.8)	(30.0)	(30.7)	(31.1)
Net Property Income	**44.2**	**48.7**	**48.6**	**49.5**
Other Operating expenses	(5.7)	(5.4)	(5.4)	(5.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.6)	(8.2)	(8.3)	(8.7)
Exceptional Gain/(Loss)	(1.5)	(6.6)	(2.9)	0.0
Net Income	**27.3**	**28.6**	**32.1**	**35.2**
Tax	(1.4)	(1.3)	(1.3)	(1.2)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	**26.0**	**27.2**	**30.8**	**33.9**
Total Return	26.0	27.2	30.8	33.9
Non-tax deductible Items	6.78	8.14	7.65	4.90
Net Inc available for Dist.	34.3	35.4	38.4	38.8
Growth & Ratio				
Revenue Gth (%)	N/A	11.0	0.8	1.7
N Property Inc Gth (%)	nm	10.4	(0.2)	1.9
Net Inc Gth (%)	nm	4.9	13.1	10.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	62.2	61.9	61.3	61.4
Net Income Margins (%)	36.6	34.6	38.8	42.1
Dist to revenue (%)	48.3	44.9	48.4	48.2
Managers & Trustee's fees	8.0	6.9	6.8	7.0
ROAE (%)	10.6	5.6	6.4	7.1
ROA (%)	6.5	3.4	3.8	4.2
ROCE (%)	9.6	5.4	5.4	5.4
Int. Cover (x)	4.0	5.3	5.2	5.1

Source: Company, DBS Bank

Driven mainly from rental growth, occupancy rate increases

Balance Sheet (US$m)

FY Dec	2015A	2016F	2017F	2018F
Investment Properties	777	780	788	794
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invts	24.6	20.3	20.3	20.4
Inventory	0.0	0.0	0.0	0.0
Debtors	1.64	3.15	3.17	3.23
Other Current Assets	0.70	0.70	0.70	0.70
Total Assets	804	804	812	818
ST Debt	0.0	0.0	0.0	0.0
Creditor	10.6	7.87	7.93	8.07
Other Current Liab	4.34	4.34	4.34	4.34
LT Debt	294	303	314	320
Other LT Liabilities	5.10	5.10	5.10	5.10
Unit holders' funds	490	484	481	481
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	804	804	812	818
Non-Cash Wkg. Capital	(12.6)	(8.4)	(8.4)	(8.5)
Net Cash/(Debt)	(269)	(283)	(294)	(299)
Ratio				
Current Ratio (x)	1.8	2.0	2.0	2.0
Quick Ratio (x)	1.8	2.0	2.0	2.0
Aggregate Leverage (%)	36.6	37.7	38.7	39.1

Source: Company, DBS Bank

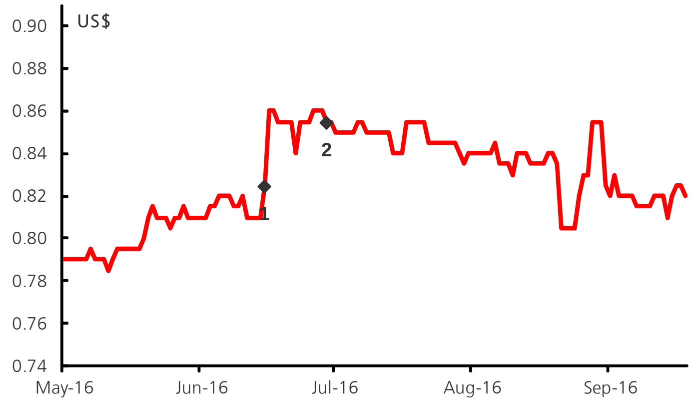
Gearing to remain steady . We have not priced in any revaluation gains in our forecasts

Cash Flow Statement (US$m)

FY Dec	2015A	2016F	2017F	2018F
Pre-Tax Income	28.9	35.1	35.0	35.2
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	0.0	(1.3)	(1.3)	(1.2)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(14.6)	(4.3)	0.04	0.08
Other Operating CF	17.6	1.56	4.79	4.90
Net Operating CF	**31.9**	**31.1**	**38.5**	**38.9**
Net Invt in Properties	(769)	(0.6)	(2.1)	(0.8)
Other Invts (net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(8.8)	(8.4)	(5.0)
Net Investing CF	**(769)**	**(9.4)**	**(10.6)**	**(5.8)**
Distribution Paid	(17.6)	(35.4)	(38.4)	(38.8)
Chg in Gross Debt	304	9.44	10.6	5.83
New units issued	491	0.0	0.0	0.0
Other Financing CF	(8.3)	0.0	0.0	0.0
Net Financing CF	**769**	**(25.9)**	**(27.9)**	**(33.0)**
Currency Adjustments	(0.1)	0.0	0.0	0.0
Chg in Cash	31.7	(4.3)	0.04	0.08
Operating CFPS (US cts.)	7.42	5.61	6.05	6.06
Free CFPS (US cts.)	(118)	4.84	5.72	5.95

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1	04 Jul 16	0.83	0.91	BUY
2	18 Jul 16	0.86	0.93	BUY

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

Source: DBS Bank

Analyst: Derek TAN, Mervin SONG CFA

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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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 10 Oct 2016 09:04:54
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