

6 January 2017

Property | REITS

Manulife US REIT

Buy (Maintained)

A "Trump" Card

We expect US office demand to strengthen further in 2017 from pro-business policies of president-elect Donald Trump. MUST is the only listed REIT in Asia offering the best-proxy to the rebounding US economy and strengthening USD via its freehold office properties. The REIT also offers a superior FY17F yield of 7.6%, a healthy 100bps above its Singapore peers. We expect it to acquire at least one office asset in 2017 boosting DPU. Maintain BUY with a USD0.96 TP (14% upside).

Trump's economic policy favours US office demand. US president-elect Donald Trump's economic policies of cutting corporate tax rates, moving offshore jobs back to US and spurring growth through infrastructure and defence spending augurs well for the US labour market and office demand in 2017. The US economy is already in a solid footing with revised 3Q GDP up 3.5%, marking the strongest quarter in two years. According to Colliers International (Colliers), the US economy added an average of 206,000 jobs per month in 3Q16, up 41% QoQ. Unemployment rate stood at 4.6% in Nov 2016, the lowest since Aug 2007.

Office leasing momentum gaining traction with rentals picking up. According to Colliers 3Q16 report, the US office market continued its positive momentum with the national vacancy rate dropping to 12.4% (-10bps QoQ). It is expected to match or dip below prior cycle low by early 2017. 3Q overall net office absorption stood at 20.6m sqf, well above the 5-year quarterly average of 16.6m sqf. Vacancy rates also continued to decline in all Manulife US REIT (MUST) portfolio sub-markets of Atlanta, Los Angeles and Orange County in 2016 with annual rents increasing 6.1%, 6.5% and 8.5% YoY respectively in 2016, based on JLL data.

A hedge against Fed rate hikes. While a faster-than-expected US Federal Reserve rate hike generally has a negative impact on yield instruments like REITs, we believe the impact on MUST is mitigated. This is as such an event would coincide with a pick-up in the US economy and consequently an improvement in office demand. The rate hike would also result in the strengthening of USD, benefitting Asian currency investors. In addition, the REIT refinanced its loan facility (Jul 2016) to a 4-year fixed-term loan at a lower interest cost of 2.46%, shielding it from impact of rising borrowing costs.

Acquisitions on the horizon. We expect MUST to acquire at least one yield accretive office property in 2017 further boosting its DPU. Near-term acquisitions are expected to be bite sized, at USD100-150m targeting secondary cities to provide further portfolio diversification. Its sponsor, Manulife Group, has total assets under management (AUM) of USD718bn. Of this, its US office assets account for >USD6bn, providing a strong pipeline. Its current gearing remains modest, at 34.7%.

Maintain BUY with a TP of USD0.96. Our TP is based on a 5-year DDM model (COE: 8.5%, TG: 2%). MUST offers high FY17F-18F dividend yields of 7.6% and 7.8% respectively, a good 100bps above the office S-REITs average. Key risks are the ability to retain its key office tenants, changes to the underlying tax-efficient structure, and the US economic growth faltering.

Target Price:	USD0.96
Price:	USD0.84
Market Cap:	USD524m
Bloomberg Ticker:	MUST SP

Share Data

Avg Daily Turnover (USD/USD)	0.93m/0.93m
52-wk Price low/high (USD)	0.79 - 0.86
Free Float (%)	93
Shares outstanding (m)	628
Estimated Return	14%

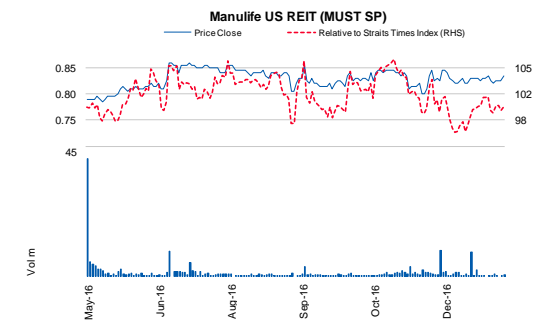
Shareholders (%)

Manulife Financial Corp	7.7
Credit Suisse Group AG	3.1
IG Investment Management	1.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.2	(1.2)	1.8	1.2	
Relative	(0.2)	(1.3)	0.5	(0.6)	

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16F*	Dec-17F	Dec-18F
Total turnover (USDm)	70.9	52.5	80.8	83.2
Net property income (USDm)	44.2	32.8	50.4	51.9
Reported net profit (USDm)	26.0	56.3	44.3	45.5
Total distributable income (USDm)	26.0	24.1	40.5	41.8
DPS (USD)	na	0.06	0.06	0.07
DPS growth (%)	0.0	0.0	10.9	2.2
Recurring P/E (x)	20.2	9.4	12.1	11.8
P/B (x)	1.07	1.01	1.00	1.00
Dividend Yield (%)	na	6.9	7.6	7.8
Return on average equity (%)	10.6	11.1	8.3	8.4
Return on average assets (%)	6.5	6.8	5.2	5.2
Interest cover (x)	4.01	5.98	7.02	7.06
Our vs consensus EPS (adjusted)				

Note: *May - Dec 2016 DPS is annualised; Source: Company data, RHB

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Financial Exhibits

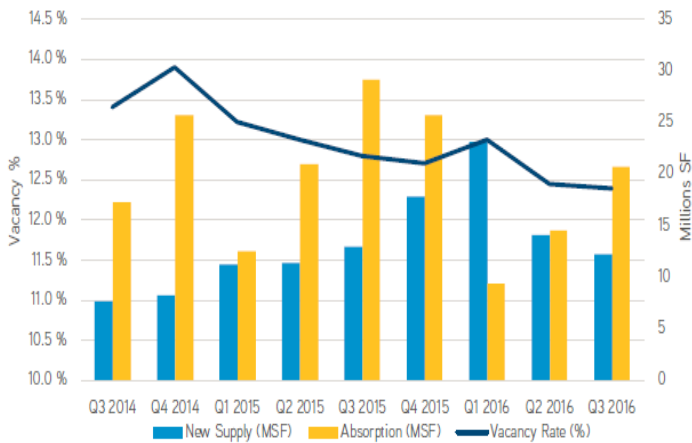
Financial model updated on : 2017-01-05.

Asia	Financial summary	Dec-15	Dec-16F	Dec-17F	Dec-18F
Singapore	Recurring EPS (USD)	0.04	0.09	0.07	0.07
Property	EPS (USD)	0.04	0.09	0.07	0.07
Manulife US Real Estate Investment Trust	DPS (USD)	0.00	0.06	0.06	0.07
Bloomberg MUST SP	BVPS (USD)	0.78	0.83	0.83	0.84
Buy	Weighted avg adjusted shares (m)	630	633	639	644
Valuation basis	Valuation metrics	Dec-15	Dec-16F	Dec-17F	Dec-18F
DDM	Recurring P/E (x)	20.2	9.4	12.1	11.8
	P/E (x)	20.2	9.4	12.1	11.8
Key drivers	P/B (x)	1.07	1.01	1.00	1.00
i. Organic rental growth;	FCF Yield (%)	(140.3)	3.9	6.0	6.1
ii. Growth from yield accretive acquisitions;	Dividend Yield (%)	0.0	6.9	7.6	7.8
iii. Positive demand-supply dynamics in U.S office market.	EV/EBITDA (x)	19.6	24.9	16.9	16.6
	EV/EBIT (x)	20.7	27.5	18.0	17.6
Key risks	Income statement	Dec-15	Dec-16F	Dec-17F	Dec-18F
i. Ability to retain key tenants;	Total turnover (USDm)	70.9	52.5	80.8	83.2
ii. Changes in tax structure;	EBITDA (USDm)	40.6	31.8	47.6	48.9
iii. US economic growth falters.	Depreciation and amortisation (USDm)	(2.1)	(3.0)	(3.0)	(3.0)
	Operating profit (USDm)	38.5	28.8	44.6	45.9
	Net interest (USDm)	(9.6)	(4.8)	(6.4)	(6.5)
	Pre-tax profit (USDm)	27.3	59.0	46.4	47.7
	Taxation (USDm)	(1.4)	(2.7)	(2.1)	(2.1)
	Recurring net profit (USDm)	26.0	56.3	44.3	45.5
Company Profile	Cash flow (USDm)	Dec-15	Dec-16F	Dec-17F	Dec-18F
Manulife US Real Estate Investment Trust (Manulife US REIT) is the first pure-play U.S. office REIT listed in Asia. It is a Singapore REIT established with the investment strategy principally to invest, directly or indirectly, in a portfolio of income-producing office real estate in key markets in the United States, as well as real estate-related assets.	Change in working capital	(15)	(10)	(16)	(16)
	Cash flow from operations	31	25	36	37
	Capex	(769)	(4)	(4)	(4)
	Cash flow from investing activities	(769)	(4)	(4)	(4)
	Proceeds from issue of shares	491	0	0	0
	Dividends paid	(18)	(24)	(41)	(42)
	Cash flow from financing activities	762	(15)	(29)	(29)
	Cash at beginning of period	0	25	30	33
	Net change in cash	24	6	3	4
	Ending balance cash	24	30	33	37
	Balance sheet (USDm)	Dec-15	Dec-16F	Dec-17F	Dec-18F
	Total cash and equivalents	25	30	33	37
	Tangible fixed assets	777	816	829	841
	Total assets	804	848	864	881
	Total long-term debt	294	296	303	310
	Other liabilities	4	4	5	5
	Total liabilities	314	321	329	338
	Shareholders' equity	490	527	535	543
	Total equity	490	527	535	543
	Net debt	269	266	270	273
	Total liabilities & equity	804	848	864	881
	Key metrics	Dec-15	Dec-16F	Dec-17F	Dec-18F
	Revenue growth (%)	0.0	n.m	53.9	3.0
	Recurrent EPS growth (%)	0.0	n.m	(22.1)	2.0
	Operating EBITDA margin (%)	57.2	60.6	58.9	58.7
	Net profit margin (%)	36.6	107.2	54.8	54.7
	Capex/sales (%)	1084.5	7.4	5.1	5.0
	Interest cover (x)	4.01	5.98	7.02	7.06

Note:*8-mth numbers from May-Dec 2016;

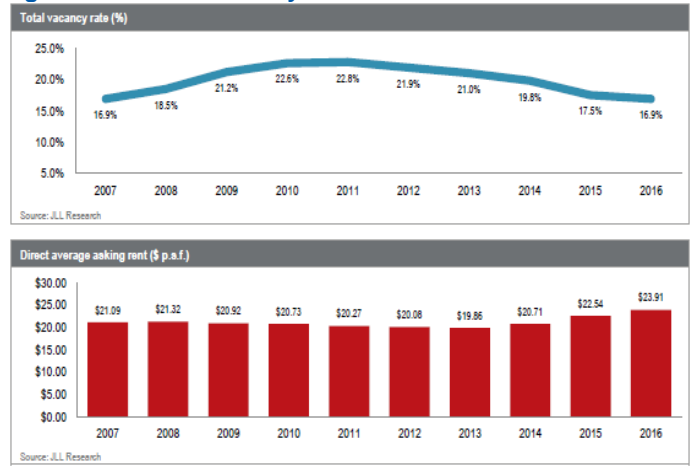
Source: Company data, RHB

Figure 1: US office market supply vs absorption



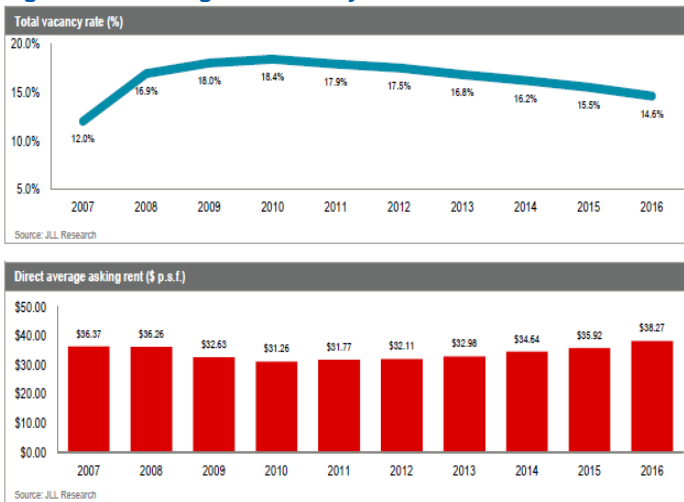
Source: Colliers International

Figure 2: Atlanta vacancy rates and rental trend



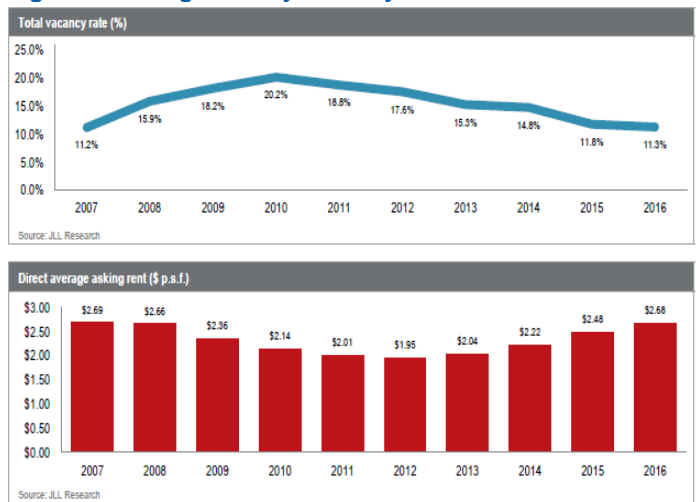
Source: JLL

Figure 3: Los Angeles vacancy rates and rental trend



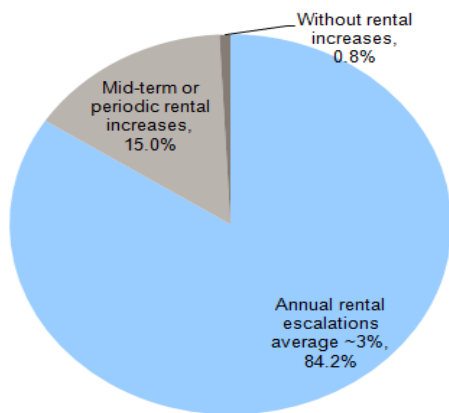
Source: JLL

Figure 4: Orange County vacancy rates and rental trend



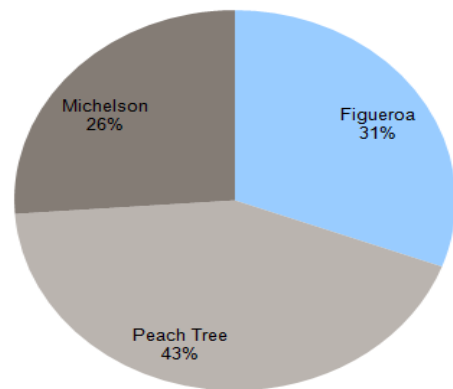
Source: JLL

Figure 5: Portfolio rental escalations breakdown



Source: Company data, RHB

Figure 6: NPI breakdown by property (3Q16) *



* Note: Data as at 30 Sep 2016
Source: Company data

Figure 7: S-REITs office peer comparison table*

	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	Gearing/simple ave	WALE (years)	% FY-1	% FY-2
S-REITs	48,438	87,673		0.8	2.7	0.1	(6.2)	(3.5)	4.0	2.0	12.5	(9.8)	1.0	6.6	6.7	4.0	35.1%			
Office REITS (excl. MUST)	9,756	20,699		0.5	2.3	(1.8)	(6.9)	(3.2)	8.0	1.1	16.2	(8.7)	0.80	6.4	6.4	3.8	36.3%	4.93	7.1%	18.6%
Manulife US REIT	521	667	0.83	(0.6)	0.6	(1.2)	0.6	(3.5)	N.M	0.6	7.8	(4.0)	1.06	7.6	7.8	4.2	34.7%	6.1	5%	2%
CapitalLand Commercial Trust	3,142	10,061	1.52	1.0	3.4	(1.6)	(6.5)	(0.3)	11.4	2.7	19.7	(7.3)	0.87	5.9	5.9	3.4	30.1%	7.5	6%	10%
Suntec REIT	2,925	6,560	1.66	0.3	1.8	(1.8)	(5.4)	(7.0)	5.1	0.3	10.3	(8.6)	0.78	6.0	6.0	3.5	35.8%	N.A	11%	22%
Keppel REIT	2,365	3,131	1.03	1.0	2.5	(2.8)	(9.3)	(3.3)	10.8	1.0	20.5	(10.4)	0.72	6.8	6.8	4.2	39.0%	6	3%	12%
OUE Commercial Trust	620	70	0.69	(1.4)	0.0	0.0	(2.8)	0.7	3.8	(1.4)	16.1	(4.9)	0.77	7.6	7.6	5.0	40.5%	2.9	9%	28%
Fraser's Commercial Trust	705	877	1.27	(0.4)	1.2	(1.2)	(11.2)	(2.7)	0.0	0.4	10.5	(12.8)	0.82	7.7	7.6	5.1	36.2%	3.3	6%	22%

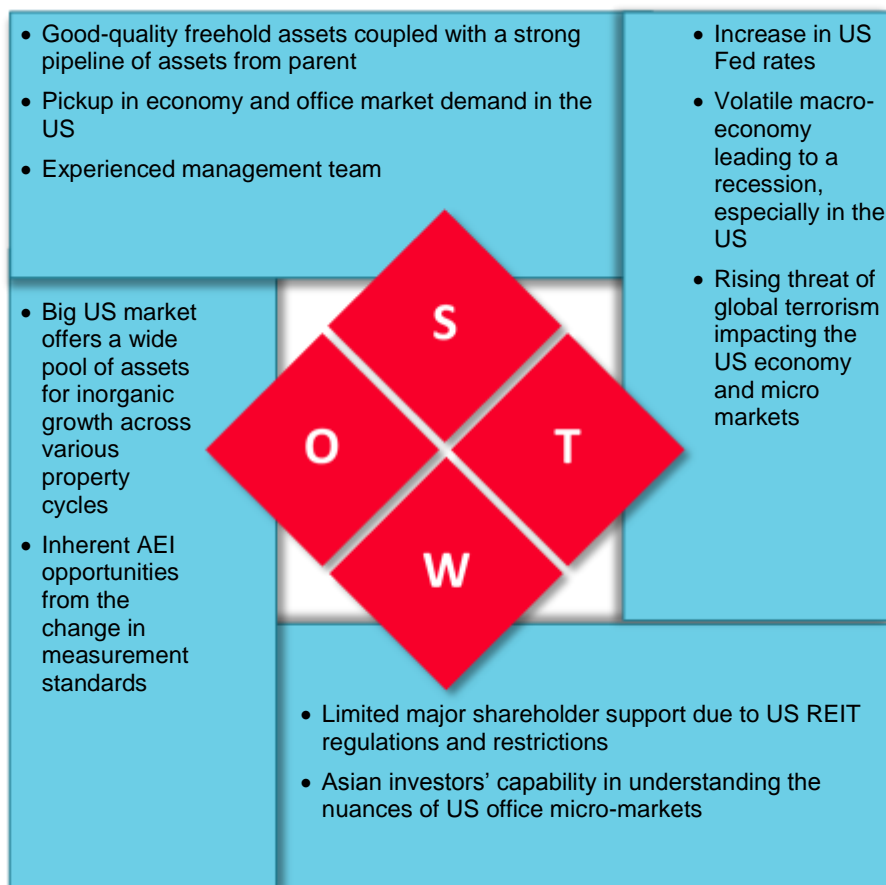
Source: Bloomberg, RHB

Figure 8: DDM valuation table

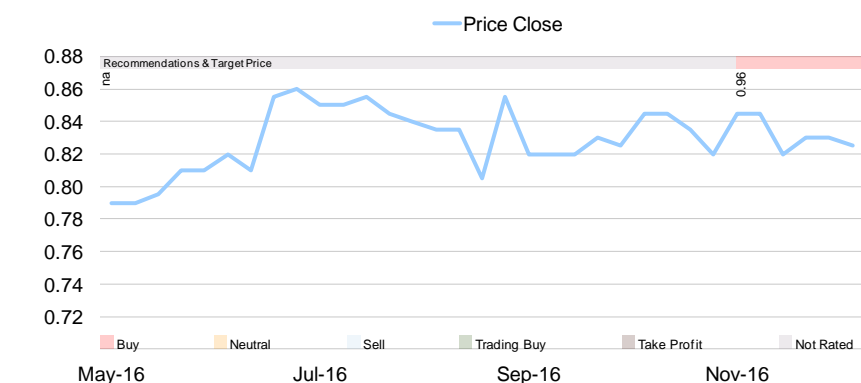
	FY16F	FY17F	FY18F	FY19F	FY20F	FY21F	Terminal Value
DPU (USD Cts)	5.7	6.4	6.5	6.5	6.7	6.8	106.2
Target price (USD)	0.96						
Current Price (USD)	0.84						
Price Upside (%)	15%						
Distribution Yield FY17F (%)	7.6%						
Assumptions							
Risk-free rate (%)	3%						
Beta	1.00						
Cost of equity (%)	8.5%						
Terminal growth (%)	2%						

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-11-23	Buy	0.96	0.81

Source: RHB, Bloomberg

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