

10 February 2023

Property | REITS

## Manulife US REIT (MUST SP)

**Buy** (Maintained)

### Taking The Right Measures; Stay BUY

Target Price (Return): USD0.43 (+45%)  
 Price (Market Cap): USD0.30 (USD533m)  
 ESG score: 3.33 (out of 4)  
 Avg Daily Turnover (USD/USD) 1.14m/1.14m

- **Keep BUY and USD0.43 TP, 45% upside.** 2H/FY22 DPU came in slightly below. Positives were seen on the leasing front, with new leases (4Q) accounting for c.67% of total demand. More importantly, we believe management is taking the right steps by actively working with its Sponsor to lighten its debt while simultaneously exploring options with third parties, which, if successful, should bring the much needed relief and stabilise the REIT. Valuation has priced in the worst – currently trading at 40% discount and offering c.14% yield.
- **On the road to redemption.** Manulife US REIT is currently working on various steps to address its high gearing and operational challenges. The key of which has been the commencement of active negotiations with its Sponsor for potential asset disposition, likely to be in the form of a stake sale of its assets. Any such any sale to the Sponsor will be at or above the latest valuation, as per guidelines. In addition, its ongoing strategic review has received a broad range of interest from local and international developers as well as private equity firms. These are likely to be evaluated by 2Q23. In the meantime, the REIT has cut its pay-out ratio and is activating distribution reinvestment plan to conserve cash. While another option to shore-up capital is through a highly dilutive rights issue, this is likely to be one of its least preferred options.
- **Green shoots emerging.** Leasing demand improved in 4Q to c.123k sqf, which is nearly half of leases signed in 9M22, with new demand accounting for 67% of it. Rental reversion (FY22) was slightly positive and is expected to remain in a low to mid-single digits for FY23 although lease incentives remained high in certain submarkets. Our view is that the US office market conditions are likely to bottom by 1H23, with easing COVID-19 concerns and recessionary fears providing greater clarity on hybrid work arrangements for tenants, and a demand recovery is likely in 2H23.
- **2H22 DPU post income retention declined 19% YoY** due to lower occupancy, the absence of its one-off income, higher financing costs and retention of 9% of its income. Overall, FY22 DPU came in at 95% of our forecasts. As highlighted in our previous reports, overall asset value declined by c.11% mainly due to an expansion in discount and cap rates. 80% of these were driven by five out of its 12 assets in three challenging submarkets of Los Angeles, Northern New Jersey, and Washington DC. Gearing, as a result, increased to 48.8%, closer to the maximum regulatory gearing limit of 50% (assuming interest cover: >2.5x). c.77% of its debt is hedged and funding has been secured for its USD105m loan due in June.
- **No material changes to our DPU estimates.** MUST has a high quality green-certified portfolio and remains one of the ESG pioneers in the S-REITs, resulting in a high score of 3.3 (out of 4.0). As such, we apply a 6% premium to our TP.

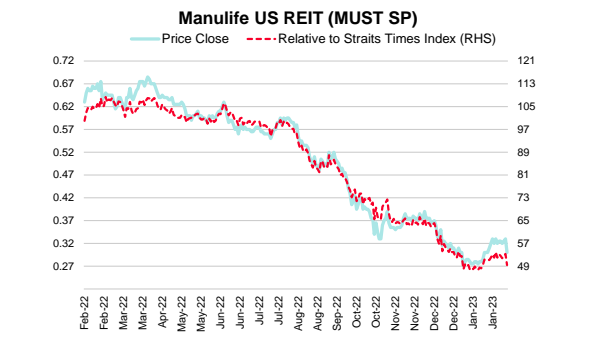
#### Analyst

Vijay Natarajan  
 +65 6320 0825  
[vijay.natarajan@rhbgroup.com](mailto:vijay.natarajan@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	7.1	(15.5)	(48.7)	(52.4)
Relative	(3.3)	5.5	(21.6)	(51.4)	(50.6)
52-wk Price low/high (USD)				0.27	– 0.69



Source: Bloomberg

#### Overall ESG Score: 3.33 (out of 4)

##### E: EXCELLENT

Manulife US REIT targets to achieve 100% green certified portfolio by 2030. It was awarded five stars by the Global Real Estate Sustainability Benchmark (GRESB) benchmark for the second year running, and was rated “A” at the public disclosure level. It is committed to meeting its net-zero and 80% greenhouse gas emissions reduction targets by 2050.

##### S: EXCELLENT

The REIT’s staff engagement score has been improving since 2019, and it has a good balance between the genders in its management team. Time spent on corporate social responsibility (CSR) activities rose 1% to 189 hours with higher CSR contributions.

##### G: GOOD

It has incorporated links to its sustainability performance in incentive pay policies for all employees. There is a high level of investor outreach and education via the Green Dot series, as well as through various technology tools. The REIT also has good-quality earnings and operating metrics disclosures.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	185	203	190	198	206
Net property income (USDm)	110	113	115	120	125
Reported net profit (USDm)	39	(130)	74	127	82
Total distributable income (USDm)	85.6	87.9	85.8	89.2	92.3
DPS (USD)	0.05	0.05	0.04	0.04	0.04
DPS growth (%)	(5.4)	(11.5)	(10.1)	2.3	1.9
P/B (x)	0.40	0.52	0.53	0.52	0.52
Dividend Yield (%)	17.8	15.7	14.2	14.5	14.8
Return on average equity (%)	3.4	(11.7)	7.3	12.1	7.6
Return on average assets (%)	1.8	(5.9)	3.5	5.9	3.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (USD)	0.02	-	0.08	0.04	0.07
Property	EPS (USD)	0.02	-	0.08	0.04	0.07
<b>Manulife US REIT</b>	DPS (USD)	0.05	0.05	0.04	0.04	0.04
MUST SP	BVPS (USD)	0.74	0.58	0.56	0.58	0.58
Buy	Return on average equity (%)	3.4	(11.7)	7.3	12.1	7.6
	Weighted avg adjusted shares (m)	1,589.36	1,685.06	1,792.37	1,832.45	1,861.25
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
DDM	Recurring P/E (x)	12.10	na	7.25	4.34	6.84
	P/E (x)	12.10	na	7.25	4.34	6.84
<b>Key drivers</b>	P/B (x)	0.4	0.5	0.5	0.5	0.5
i. Stabilisation and recovery in US office market;	FCF Yield (%)	(26.5)	13.1	19.1	19.4	19.7
ii. Potential JVs, M&A or a buyout;	Dividend Yield (%)	17.8	15.7	14.2	14.5	14.8
iii. The stock trading at distressed valuations..	EV/EBITDA (x)	13.54	12.58	13.08	12.72	12.50
	EV/EBIT (x)	13.81	13.12	13.63	13.19	12.94
<b>Key risks</b>	<b>Income statement (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
i. Continued decline in office demand for gateway cities;	Total turnover	185	203	190	198	206
ii. Unexpected changes in the tax-efficient structure; and	EBITDA	100	106	108	114	118
iii. Higher interest rates for the longer	Depreciation and amortisation	(2)	(4)	(4)	(4)	(4)
	Operating profit	98	102	104	110	114
	Net interest	(29)	(34)	(38)	(40)	(40)
	Pre-tax profit	41	(148)	75	128	84
	Taxation	(1)	18	(1)	(2)	(2)
	Recurring net profit	39	(130)	74	127	82
<b>Company Profile</b>	<b>Cash flow (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Manulife US Real Estate Investment Trust 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	6	1	(8)	(9)	(9)
	Cash flow from operations	104	91	112	116	120
	Capex	(231)	(25)	(10)	(10)	(10)
	Cash flow from investing activities	(231)	(25)	(10)	(10)	(10)
	Dividends paid	(84)	(89)	(86)	(89)	(92)
	Cash flow from financing activities	196	(184)	(76)	(78)	(78)
	Cash at beginning of period	87	79	113	108	104
	Net change in cash	69	(118)	27	29	32
	Ending balance cash	156	(39)	140	137	136
	<b>Balance sheet (USDm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	79	113	108	104	103
	Tangible fixed assets	2,184	1,947	1,966	2,035	2,056
	Total investments	6	48	48	48	48
	Total assets	2,276	2,116	2,128	2,193	2,213
	Short-term debt	297	145	150	150	160
	Total long-term debt	675	884	894	904	909
	Total liabilities	1,088	1,096	1,105	1,117	1,134
	Shareholders' equity	1,188	1,020	1,023	1,075	1,079
	Total equity	1,188	1,020	1,023	1,075	1,079
	Net debt	893	916	936	950	966
	Total liabilities & equity	2,276	2,116	2,128	2,193	2,213
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(4.8)	9.5	(6.4)	4.7	3.8
	Recurrent EPS growth (%)	0.0	(410.4)	0.0	66.8	(36.5)
	Operating EBITDA margin (%)	54.1	52.3	57.0	57.2	57.1
	Net profit margin (%)	21.3	(64.0)	39.2	63.8	39.6
	Dividend payout ratio (%)	217.2	(64.4)	104.0	63.4	101.7
	Capex/sales (%)	124.8	12.5	5.1	5.0	4.9
	Interest cover (x)	3.37	3.00	2.72	2.73	2.83

Source: Company data, RHB

Figure 1: DDM valuation table

	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (US cents)	4.2	4.3	4.4	4.5	4.7	45.0
<b>FV (USD)</b>	0.41					
ESG premium/(Disc) (US cents)	0.02					
TP (USD)	0.43					
Current price (USD)	0.30					
Price upside	45.0%					
Distribution yield (FY23F)	14.2%					
<b>Total return</b>	59.2%					
<b>Assumptions</b>						
Risk-free rate: (%)	3.0%					
Beta	1.2					
Cost of equity (%)	12.0%					
Terminal growth: (%)	1.5%					

Source: RHB

## Recommendation Chart

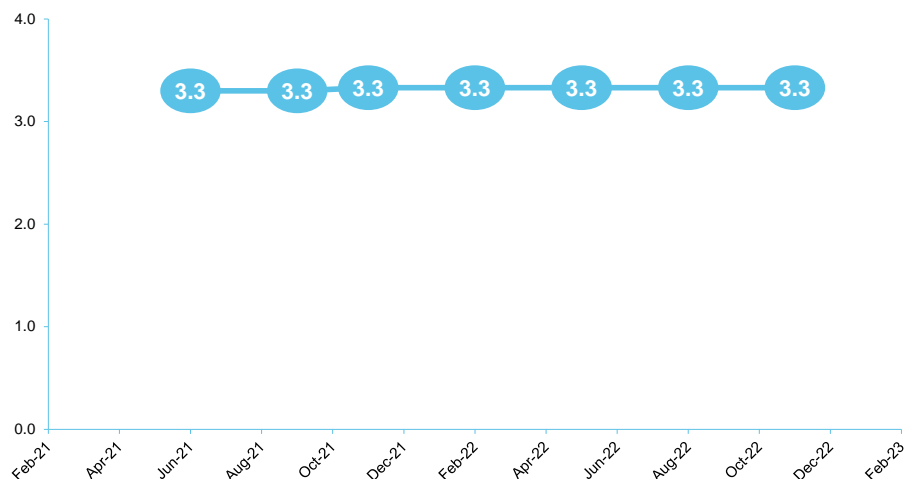


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-02	Buy	0.43	0.30
2022-11-02	Buy	0.64	0.36
2022-08-04	Buy	0.78	0.60
2022-05-10	Buy	0.83	0.60
2022-02-10	Buy	0.86	0.65
2021-12-01	Buy	0.90	0.68
2021-11-04	Buy	0.90	0.70
2021-02-09	Buy	0.87	0.72
2020-11-05	Buy	0.90	0.74
2020-05-10	Buy	0.90	0.71
2020-03-24	Buy	0.88	0.70
2020-02-05	Buy	1.12	1.04
2019-12-13	Buy	1.10	0.98
2019-11-05	Buy	1.00	0.92
2019-09-20	Buy	na	0.91

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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#### **KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### **JAKARTA**

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### **BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### **SINGAPORE**

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470