

## EQUITY RESEARCH

12 April 2023

## Manulife US Real Estate Investment Trust

Largest US Office SREIT.

## Company Overview

**Manulife US REIT (MUST)** is the first pure-play US office REIT listed in Asia. Its portfolio consists of nine freehold, Class A or Trophy-quality office properties in Atlanta, Los Angeles, New Jersey, Washington DC, Virginia, Orange County and Sacramento.

## Investment Overview

## Our Arguments:

**Rides on “flight to quality” trends in US office market.** Manulife US REIT’s (MUST) portfolio comprises trophy/class A office buildings located in key cities in the US that ride on the “flight to quality” trends as US corporates rationalise their office space.

**Sponsor’s support to acquire MUST’s asset(s) will be a win-win approach for both and best-case scenario for MUST.** MUST’s portfolio valuation decline has caused gearing to spike up, resulting in a limited buffer for MUST. We believe the sponsor’s support to acquire MUST’s asset(s) will be a win-win approach for both and a best-case scenario for MUST.

**Headwinds largely priced in and resolution on MUST’s gearing position will lift share price overhang.** We believe that markets have priced in a “rights issue” at current price. Given our worst case (potential rights issue), MUST’s current share price could still offer an c.8% yield, above its historical mean. We believe that the headwinds are largely priced in and the share price is close to the bottom. Any potential resolution on MUST’s current situation will lift the overhang on the share price towards our TP. Our total upside (including dividend) of 64% mainly considers 14% from dividends, 1.8% from terminal growth, and a valuation rerating of 48% in anticipation of the potential upliftment of the current overhang.

**Maintain BUY; lower TP to US\$0.45.** We maintain our BUY rating but trim our TP to US\$0.45 from US\$0.48. We lower our FY23F-FY24F DPU by c.11% on a lowered payout of 91%. Our DCF-based TP is based on a beta of 0.95x and risk-free rate of 4.2%.

## Risks

## Key Risks to our view.

**Slower-than-expected economic recovery and potential recession in the US.** This situation would impact businesses, and that may cause a rising risk of vacancy.

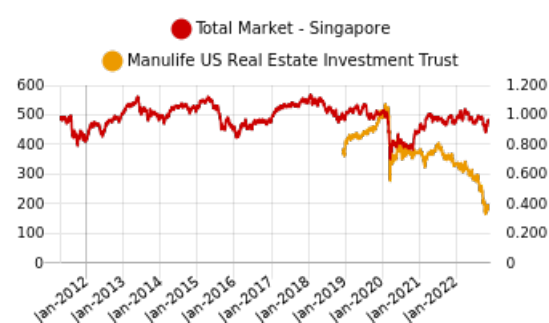
**Non-renewal of leases.** MUST’s financials, operations, and capital growth may be adversely affected by bankruptcy, insolvency, or downturns in the businesses of its tenants, which may lead to the non-renewal of their leases.

Key financial data based on the closing price

Bloomberg Ticker	MUST SP
Sector	Real Estate
Share Price (USD)	0.25
DBS Rating	BUY
12-mth Target Price (USD)	0.45
Market Cap (USD\$b)	0.45
Volume (m shares)	7.19
Free float (%)	na
Dividend yield (%)	19.77
Net Debt to Equity (%)	0
Fwd. P/E (x)	6.06
P/Book (x)	0.372895211
ROE (%)	6.58

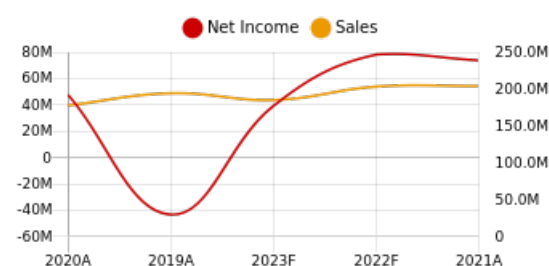
Source: Bloomberg Finance L.P.

## Indexed Share Price vs Composite Index Performance



Source: Refinitiv

## Revenue and Profit Trend (sample from CD SP)



Source: Company, DBS Bank

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## FINANCIAL SUMMARY (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Sales	177.9	194.3	185.1	203.3	204.1
% y-o-y	23.0	9.3	(4.7)	9.8	0.4
Gross Profit	110.8	115.8	109.5	129.0	128.2
% y-o-y	22.2	4.6	(5.4)	17.8	(0.6)
EBITDA	98.35	104.0	98.21	117.6	117.2
% y-o-y	20.9	5.7	(5.6)	19.7	(0.3)
Net Profit (Loss)	47.56	(43.28)	39.41	78.18	73.73
% y-o-y	nm	0	0	98.4	nm
FCF	(269.8)	57.87	(140.3)	54.32	80.72
CAPEX	(356.0)	(24.17)	(230.9)	(2.03)	(2.04)
EBITDA Margin %	55.3	53.5	53.1	57.8	57.4
Net Margin %	26.7	(22.3)	21.3	38.5	36.1
ROA (%)	2.4	(2.0)	1.8	3.4	3.2
ROE (%)	4.1	(3.6)	3.4	6.6	6.2
Tax Rate %	18.1	0	2.8	1.0	1.0

Source: Company, DBS Bank

## VALUATION METRICS (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
P/E	11.7	nm	15.9	8.0	8.6
P/B	0	0	0	0	0
Dividend Yield	0	0	0	0	0
EV/EBITDA (x)	13.3	12.8	15.5	13.4	13.6
FCF Yield %	(48.5)	10.3	(22.4)	8.6	12.7

Source: Company, DBS Bank

## CREDIT &amp; CASHFLOW METRICS (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Debt / Equity	0.6	0.7	0.8	0.8	0.8
Net Debt / Equity	0.6	0.7	0.8	0.8	0.8
Debt / Assets	0.4	0.4	0.4	0.4	0.4
Net Debt / Assets	0	0	0	0	0
EBITDA / Int Exp	3.8	3.5	3.4	3.0	2.7
ST Debt / Total Debt	0	0	0	0	0
Debt / EBITDA	8.3	8.2	9.9	8.4	8.6
[Cash + CFO] / ST Debt	0	0	0	0	0
Receivables Days	17.1	13.7	12.3	12.8	15.6
Days Payable	100.3	90.9	161.5	190.5	129.3
Inventory Days	0	0	0	0	0

Source: Company, DBS Bank

## WHAT'S NEW

## News Analysis: Going forward with strategic review

12 Apr 2023

- MUST divests its smallest asset to sponsor, Manulife at US\$33.5m (valuation as at Dec22), could help buy time to implement other options
- Update on strategic review revealed 2 options still under consideration, ie i) strategic transactions and ii) equity fund raising but highlights equity markets are still volatile
- While discussions with Mirae is still ongoing, 2 key new information reveals that Mirae may undertake a stake higher than existing sponsor and may bring in new institutional investors to subscribe for new units.
- Maintain BUY; TP of US\$0.45

After various news / comments in the media causing volatile share price reaction coupled with SGX query yesterday (11 Apr 2023), Manulife US REIT (MUST) released an announcement today (12 Apr 2023) on further updates on 2 key matters that could partially address the medial and hopefully viable options that could help MUST regain its footing.

**The divestment of Tanasbourne property to sponsor, Manulife**

MUST has successfully divested the Tanasbourne property to sponsor, Manulife at US\$33.5m. The divestment price is at the asset's valuation as at Dec2022.

**Update on the other alternatives for the strategic review**

Following from the strategic review, MUST highlighted 2 viable options that is still under consideration, ie i) equity fund raising but highlights that equity markets are still volatile and ii) strategic transactions which involves the recapitalisation of MUST. The other alternatives such as asset divestment remains to be challenging and potential mergers has been concluded that execution risks is high in this current market while may not be able to address the high gearing issue.

In the announcement, MUST has highlighted again that the discussions with Mirae is still ongoing and no binding definitive agreements have been entered into yet.

While the structure and terms of the transaction are still being discussed, Mirae has expressed that Mirae and its affiliates would subscribe for an aggregate of more than 9.8% unitholdings in MUST (will remain compliant to the US REIT tests) and Mirae will leverage its client network to bring more institutional investors to subscribe for new units. The transaction does not involve Mirae acquiring the Sponsor's existing unitholdings in MUST. The issuance of new units to Mirae and its affiliates will be subject to approval of unitholders of MUST and the Sponsor and its associates will abstain from voting in such resolution.

**Our Views**

The asset divestment to the sponsor is great news however, we are disappointed that the sponsor has chosen the smallest asset within MUST portfolio. Although the amount is small, it allows MUST to buy time to implement the other options that is still within consideration following the strategic review, ie strategic transactions and equity fund raising.

Based on new information on the strategic transaction with Mirae, while the existing sponsor, Manulife, has shown marginal support on the issue at hand, Mirae, on the other hand has shown their commitment and intention to undertake a larger shareholdings of more than 9.8%, compared to its existing sponsor. In addition, Mirae further indicates that it would bring in more institutional investors to further subscribe for new units. This could imply and we speculate that potential placement / underwriting of rights issue could be on the cards, hopefully to further assist MUST to resolve its current high gearing and lack of investor confidence.

We continue to monitor the situation, while existing sponsor's support thus far has fallen short of market's expectations (as reflective on share price), we continue to believe that a resolution of the issue at hand (capital management and balance sheet strength) could lift the overhang on the share price.

## PRINCIPAL SHARE PRICE DRIVERS

## Distribution per unit (DPU)

DPU growth led by organic growth from c.2% annual escalation and potential upside from under-rented rents in most of its office buildings.

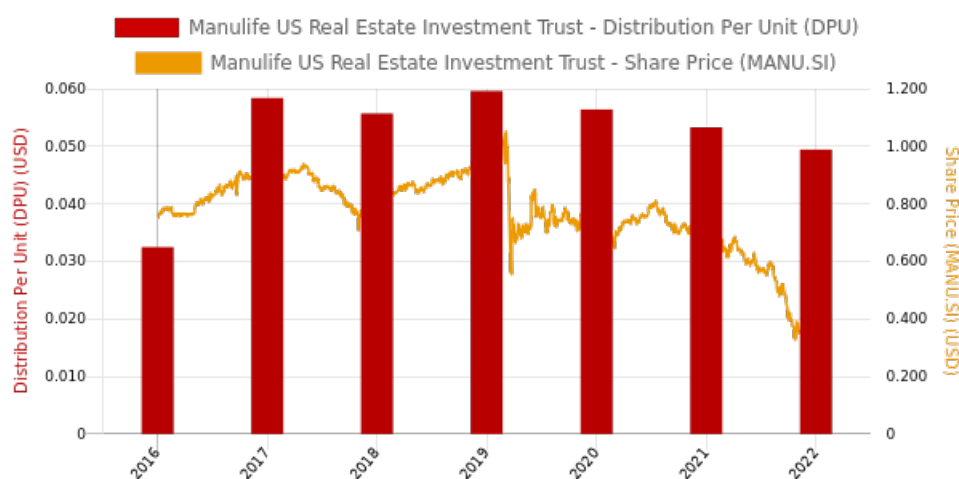
29 Nov 2020

**Organic growth with inbuilt c.2% of annual escalation.** MUST's properties are well positioned to experience strong organic growth delivered through inbuilt rental escalations embedded into their lease contracts. MUST's portfolio has inbuilt annual rental escalations of c.2% on average.

**Under-rented rents in most of its office buildings.** Most of its office buildings have passing rents that are still below or close to market rents except Michelson Centrepoint where they command premium rents due to the premium quality of the buildings in their respective sub-market. MUST can gain upside from positive reversions upon lease expiries, given majority of its office buildings passing rents are from close to market rents up to 20% below market rents.

**Long WALE offers strong income visibility.** With leases typically signed on a 3- to 10-year lease and some in excess of 10 years, MUST's portfolio enjoys a long WALE of c.6 years with only 7% leases expiring in FY21.

### Manulife US Real Estate Investment Trust - Share Price (MANU.SI) vs. Distribution Per Unit (DPU)



## Acquisitions

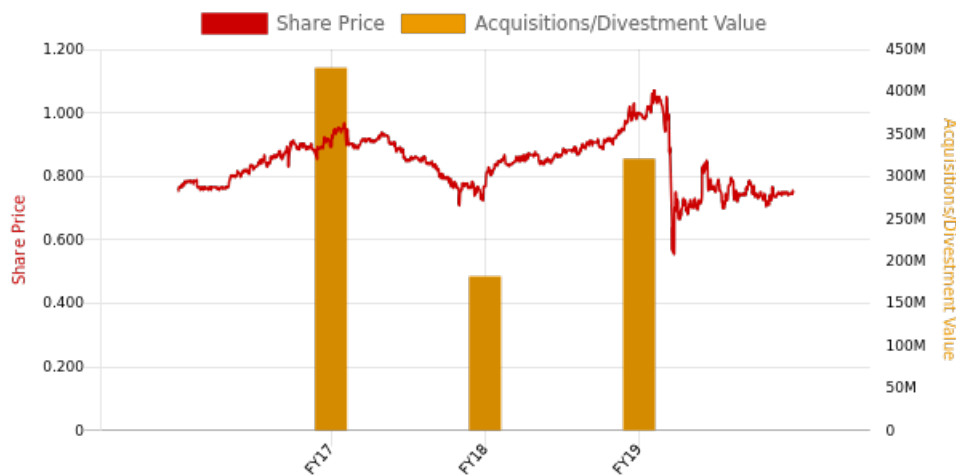
Acquisition-led growth a key strategy and another index inclusion to be a future catalyst.

29 Nov 2020

**Acquisition-led growth leading to index inclusion and greater investor visibility.** Acquisitions and inorganic growth remain to be one of the core strategies for MUST and has been a key enabler of DPU growth. Since listing, MUST has grown from a portfolio of only 3 properties to the current 9 properties worth close to US\$2.0b. This has eventually led to inclusion into FTSE EPRA Nareit Global Developed Index in Dec19 which saw share price re-rate. We believe MUST will continue to grow in size via acquisitions with potential inclusion into another index would be a catalyst in the longer term.

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Manulife US Real Estate Investment Trust - Acquisitions/Divestment Value vs. Share Price



Yield Curve

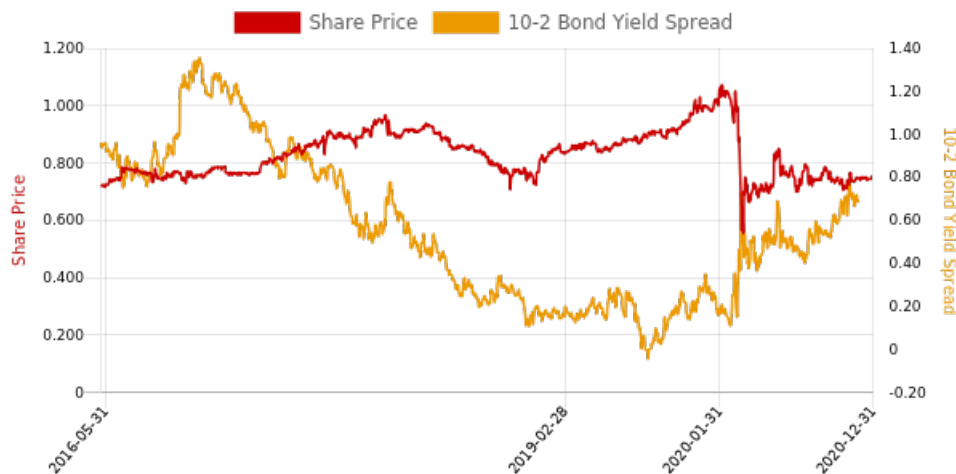
MUST offers attractive yield spread of more than 7% with US interest rates expected to remain low for a longer period.

29 Nov 2020

Attractive yield spread as interest rates are expected to remain low for longer. As interest rates are expected to remain low for a longer period especially in the US, MUST offers very attractive yield spread of more than 7% for investors despite challenges from COVID-19.

Interest savings from higher proportion of debt with floating rates and refinancing yet to be included in estimates. With lower base rates, debt with floating rates and refinancing of its expiring loans in the coming years will mean potential savings. Evidently, MUST's average cost of debt has been on a downward trend since 4Q19.

United States of America - 10-2 Bond Yield Spread vs. Manulife US Real Estate Investment Trust - Share Price



USD/SGD rate

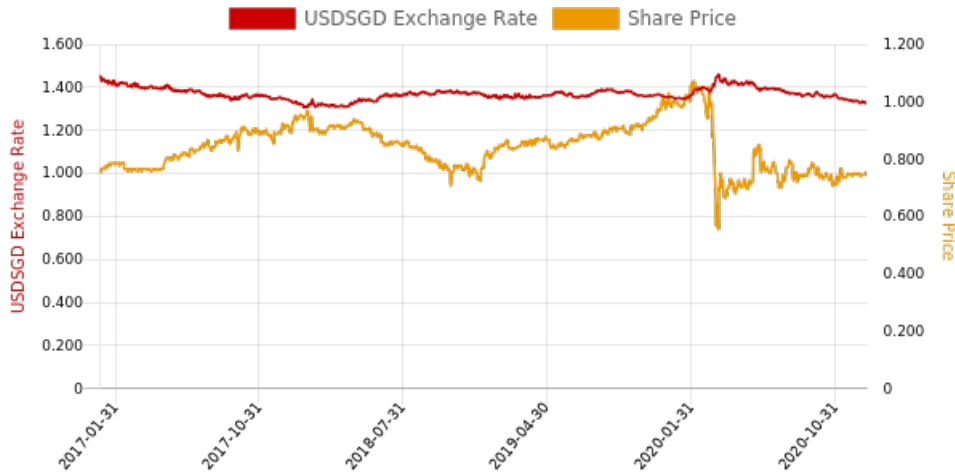
Riding on the strengthening of USD with yield and tax-free.

29 Nov 2020

A proxy to USD with yield and tax-free. Given its share price and DPU is in USD, MUST is seen as a proxy to USD with yield and tax-free. In cycles where USD is on an upward trend, we see MUST share price could remain resilient with the upside from the currency.

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- USDSGD Exchange Rate vs. Manulife US Real Estate Investment Trust
- Share Price



PROFILE

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## FORECASTS AND VALUATION (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Gross Revenue	177.9	194.3	185.1	203.3	204.1
Net Property Inc	110.8	115.8	109.5	129.0	128.2
Total Return	47.56	(43.28)	39.41	78.18	73.73
Distribution Inc	83.34	88.97	85.60	87.56	82.67
EPU (USD)	0.030	(0.027)	0.022	0.044	0.041
EPU Gth (%)	(40.0)	0	0	97.5	(6.5)
DPU (USD)	0.060	0.056	0.053	0.049	0.046
DPU Gth (%)	7.0	(5.4)	(5.5)	(7.3)	(6.4)
NAV per shr (USD)	0.802	0.731	0.673	0.670	0.665
PE (x)	11.7	nm	15.9	8.0	8.6
Distribution Yield (%)	16.8	15.9	15.0	13.9	13.0
P/NAV (x)	0.4	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	37.7	40.8	42.7	43.6	44.1
ROAE (%)	4.1	(3.6)	3.4	6.6	6.2

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## INCOME STATEMENT (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Gross revenue	177.9	194.3	185.1	203.3	204.1
Property expenses	(67.08)	(78.47)	(75.55)	(74.27)	(75.91)
<b>Net Property Income</b>	<b>110.8</b>	<b>115.8</b>	<b>109.5</b>	<b>129.0</b>	<b>128.2</b>
Other Operating expenses	(12.42)	(11.83)	(11.34)	(11.46)	(10.99)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(25.71)	(29.57)	(29.12)	(38.59)	(42.76)
Exceptional Gain/(Loss)	(14.60)	(140.4)	(28.53)	0	0
<b>Net Income</b>	<b>58.05</b>	<b>(65.98)</b>	<b>40.56</b>	<b>78.97</b>	<b>74.48</b>
Tax	(10.48)	22.70	(1.14)	(0.790)	(0.745)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Income After Tax</b>	<b>47.56</b>	<b>(43.28)</b>	<b>39.41</b>	<b>78.18</b>	<b>73.73</b>
Total Return	47.56	(43.28)	39.41	78.18	73.73
Non-tax deductible Items	35.78	132.3	46.19	9.38	8.94
Net Inc available for Dist.	83.34	88.97	85.60	87.56	82.67
Revenue Gth (%)	23.0	9.3	(4.7)	9.8	0.4
N Property Inc Gth (%)	22.2	4.6	(5.4)	17.8	(0.6)
Net Inc Gth (%)	(26.3)	0	0	98.4	(5.7)
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	62.3	59.6	59.2	63.5	62.8
Net Income Margins (%)	26.7	(22.3)	21.3	38.5	36.1
Dist to revenue (%)	46.9	45.8	46.2	43.1	40.5
Managers & Trustee's fees to sales (%)	7.0	6.1	6.1	5.6	5.4
ROAE (%)	4.1	(3.6)	3.4	6.6	6.2
ROA (%)	2.4	(2.0)	1.8	3.4	3.2
ROCE (%)	4.4	5.3	4.8	5.5	5.4
Int. Cover (x)	3.8	3.5	3.4	3.0	2.7

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## BALANCE SHEET (USD, M)

FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Investment Properties	2,095	1,993	2,184	2,203	2,222
Other LT Assets	0.487	()	5.65	5.65	5.65
Cash & ST Invts	60.75	86.67	78.58	45.34	43.38
Inventory	()	()	()	()	()
Debtors	7.61	6.93	5.55	8.70	8.74
Other Current Assets	2.61	1.66	1.44	1.44	1.44
<b>Total Assets</b>	<b>2,166</b>	<b>2,088</b>	<b>2,276</b>	<b>2,264</b>	<b>2,281</b>
ST Debt	78.94	233.6	296.6	296.6	296.6
Creditor	26.87	18.10	58.77	30.71	30.84
Other Current Liab	5.10	6.88	8.25	8.25	8.25
LT Debt	733.1	618.7	674.6	691.3	708.4
Other LT Liabilities	64.29	52.91	49.60	49.60	49.60
Unit holders' funds	1,258	1,158	1,188	1,188	1,188
Minority Interests	()	()	()	()	()
<b>Total Funds &amp; Liabilities</b>	<b>2,166</b>	<b>2,088</b>	<b>2,276</b>	<b>2,264</b>	<b>2,281</b>
Non-Cash Wkg. Capital	(21.74)	(16.39)	(60.02)	(28.81)	(28.90)
Net Cash/(Debt)	(751.3)	(765.6)	(892.7)	(942.6)	(961.7)
Current Ratio (x)	0.6	0.4	0.2	0.2	0.2
Quick Ratio (x)	0.6	0.4	0.2	0.2	0.2
Aggregate Leverage (%)	37.7	40.8	42.7	43.6	44.1

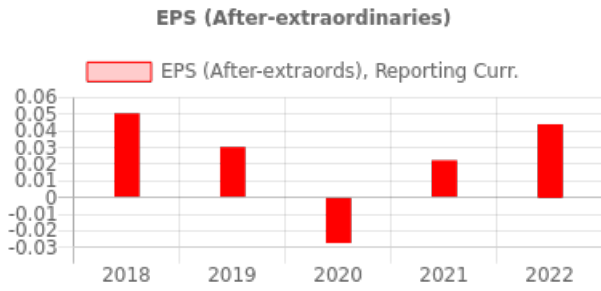
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## CASH FLOW STATEMENT (USD, M)

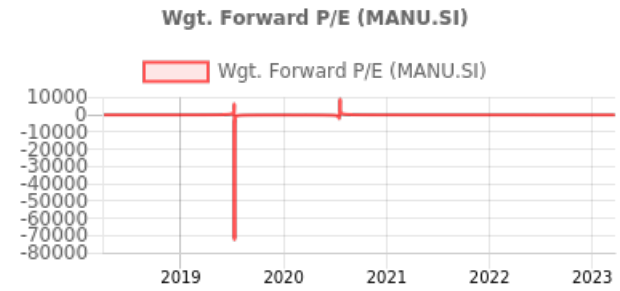
FY Dec	FY2019A	FY2020A	FY2021A	FY2022F	FY2023F
Pre-Tax Income	72.65	74.43	40.56	78.97	74.48
Dep. & Amort.	()	(0.684)	1.93	()	()
Tax Paid	(1.15)	(1.92)	(0.134)	(0.790)	(0.745)
Associates & JV Inc/(Loss)	()	()	()	()	()
Chg in Wkg.Cap.	(35.90)	18.97	(20.84)	(31.21)	0.091
Other Operating CF	50.57	(8.75)	69.11	9.38	8.94
<b>Net Operating CF</b>	<b>86.16</b>	<b>82.04</b>	<b>90.63</b>	<b>56.35</b>	<b>82.76</b>
Net Invt in Properties	(356.0)	(24.17)	(230.9)	(2.03)	(2.04)
Other Invt (net)	()	()	()	()	()
Invt in Assoc. & JV	()	()	()	()	()
Div from Assoc. & JVs	()	()	()	()	()
<b>Other Investing CF</b>	<b>0.473</b>	<b>0.166</b>	<b>0.021</b>	<b>(16.65)</b>	<b>(17.12)</b>
Net Investing CF	(355.5)	(24.01)	(230.9)	(18.69)	(19.16)
Distribution Paid	(99.4)	(70.74)	(83.97)	(87.56)	(82.67)
Chg in Gross Debt	143.4	38.57	215.5	16.65	17.12
New units issued	231.9	()	0.700	()	()
Other Financing CF	()	()	()	()	()
<b>Net Financing CF</b>	<b>276.0</b>	<b>(32.16)</b>	<b>132.2</b>	<b>(70.91)</b>	<b>(65.55)</b>
Currency Adjustments	0.006	0.053	(0.010)	()	()
Chg in Cash	6.66	25.93	(8.09)	(33.25)	(1.95)
Operating CFPS (USD)	0.078	0.040	0.063	0.049	0.046
Free CFPS (USD)	(0.172)	0.037	(0.080)	0.031	0.045

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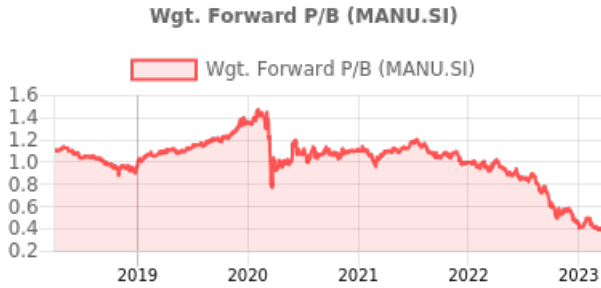
EPS (After-extraordinaries)



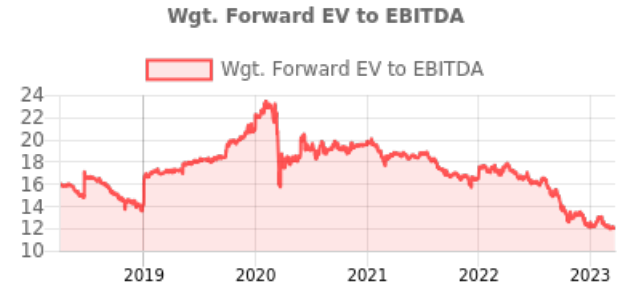
Wgt. Forward P/E (MANU.SI)



Wgt. Forward P/B (MANU.SI)



Wgt. Forward EV to EBITDA



Wgt. Forward Dividend Yield



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RECOMMENDATION DEFINITION

DBS Group Research recommendations are based on an Absolute Total Return\* Rating system, defined as follows:  
**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 share price catalysts within this time frame)

\*Share price appreciation + dividends

Sources for all charts and tables are DBS Bank unless otherwise specified.

Target Price & Ratings History



#	Date of Report	Closing Price	12-m Target Price	Rating
1	26 May'22	0.59	0.70	Buy
2	03 Nov'22	0.36	0.48	Buy

Analysts: Rachel Tan

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