

## Singapore

**ADD** (no change)

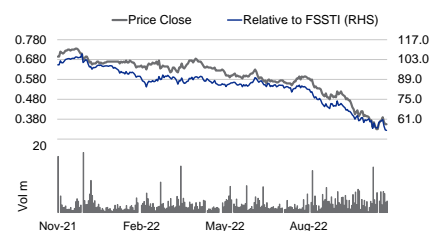
Consensus ratings\*: Buy 7 Hold 0 Sell 0

Current price:	US\$0.355
Target price:	US\$0.69
Previous target:	US\$0.78
Up/downside:	94.4%
CGS-CIMB / Consensus:	-3.0%
Reuters:	MANU.SI
Bloomberg:	MUST SP
Market cap:	US\$630.7m
Average daily turnover:	US\$1.63m
Current shares o/s:	1,764m
Free float:	94.2%

\*Source: Bloomberg

**Key changes in this note**

- FY22F DPU decreased by 2.1%
- FY23F DPU decreased by 3.49%
- FY24F DPU decreased by 2.9%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-16.5	-39.8	-50.4
Relative (%)	-16.8	-36.8	-47.6

Major shareholders	% held
Manulife Financial Corp	5.8
Prudential PLC	5.2
DBS Bank Holdings	2.8

**Analyst(s)**

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# Manulife US REIT

## Outlook challenging, but likely priced in

- Portfolio occupancy dipped in 3Q22 but reversions improved qoq to +4.3%.
- Near-term focus is on portfolio repositioning and capital management.
- Reiterate Add with a lower TP of US\$0.69.

**Highlights from 3Q22 business update**

MUST achieved a lower portfolio occupancy qoq at 88.1% as at 3Q22 (vs. 90% at end-2Q22), due mainly to lower take-up at Figueroa as major tenant Quinn Emanuel downsized its space by 71k sq ft, partly offset by higher occupancy at Diablo. Physical occupancy at MUST's buildings average 30+% as at end-3Q. Portfolio weighted average lease expiry stood at 4.9 years as at end-3Q.

**Positive rental reversion of 4.3% in 3Q**

MUST signed 61k sq ft of leases in 3Q22 (254k sq ft YTD), of which c.57% are new leases. New demand came from real estate, finance and insurance, professional services and advertising sectors. It achieved positive rental reversion of 4.3% in 3Q (+1.7% YTD) and maintained its guidance for positive mid-single-digit reversions for FY22F. MUST has a balance of 1.3%/10.1% of leases expiring in 4QFY22F/FY23F. With TCW Group deciding to vacate its space when its lease expires in Dec 2023, we anticipate that MUST's portfolio occupancy could come under pressure in the medium term. According to property consultant Jones Lang Lasalle, the US office leasing market remains mixed with sluggish leasing volumes, although net effective rents have been recovering, on the back of tenants' flight to quality. MUST's portfolio repositioning strategy includes a hotelisation exercise at Peachtree in 1H23 involving a makeover for the grand entrance, lobby, conference centre, coffee bar/lounge and outdoor terrace area. Management expects this exercise to generate an IRR of 9%. In addition, Plaza is slated to embark on providing flexible space solutions such as spec suites and co-working spaces progressively from 3Q22. MUST expects the two asset enhancement initiatives to cost a total of US\$24.8m.

**Funding cost hiked up qoq**

In terms of capital management, MUST's all-in cost of funds rose to 3.34% with interest cover of 3.4x as at end-3Q22. With end-3Q22 gearing at 42.5%, MUST indicated that it will look to reposition, recycle and rejuvenate its portfolio. Its top priority would be to manage its gearing, including asset recycling. In addition, it has formed a Strategic Working Group to explore growth opportunities including potential pivot into other asset classes, as well as strategic partnerships, JVs or M&As.


**Retain Add rating**

We lower our FY22-24F DPU estimates by 2.1-3.49% to factor in a higher debt cost. Our DDM-based TP is lowered to US\$0.69, due to reduced earnings estimates and higher cost of equity assumption of 8.44% (vs. 7.84% previously). Our forecast of 14.2% FY22F dividend yield prices in much of the slower near-term growth. Potential re-rating catalysts: better-than-expected rental reversions and faster-than-expected ramp-up in portfolio occupancy. Key downside risk: slower-than-expected backfilling of vacated spaces that could impact near-term income visibility, and protracted slowdown in the US economy which could dampen appetite for office space.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (US\$m)	194.3	185.1	210.6	216.6	217.4
Net Property Income (US\$m)	115.8	109.5	125.7	131.2	133.9
Net Profit (US\$m)	(31.39)	25.52	79.58	82.28	84.80
Distributable Profit (US\$m)	88.97	85.60	89.26	92.33	95.64
DPS (US\$)	0.056	0.053	0.050	0.051	0.052
Dividend Yield	15.9%	15.0%	14.2%	14.5%	14.8%
Asset Leverage	40.8%	42.7%	42.7%	42.9%	43.1%
BVPS (US\$)	0.73	0.68	0.67	0.66	0.66
P/BV (x)	0.49	0.52	0.53	0.53	0.54
Recurring ROE	(0.66%)	1.94%	6.70%	6.91%	7.11%
% Change In DPS Estimates			(2.10%)	(3.49%)	(2.90%)
CGS-CIMB/Consensus DPS (x)			0.99	1.01	0.97

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

		Refinitiv ESG Scores					
		B-	A+	B-	B-	C	B
		ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Governance Pillar Score
<b>ESG in a nutshell</b>							
<p>MUST's ESG score for 2021 is B-, according to Refinitiv, with B- for Environmental, C for Social, and B for Governance. MUST rates well for ESG Controversies at A+. As part of its efforts to further integrate sustainability into its business, MUST depends on four strategic areas of sustainability: 1) commitment to sustainable properties, 2) managing external relations, 3) nurturing human capital, and 4) ethical corporate behaviour. It targets to achieve 100% certified green buildings by 2030, net zero carbon by 2050, and an 80% reduction in greenhouse gas (GHG) emissions by 2050. It also aims to maintain a 5-star GRESB rating. Its objectives on the Social pillar include zero accident/workplace injury, maintain 4/5 star rating for overall tenant satisfaction and have &gt;40 hours of employee training. Within the governance front, it plans to drive sustainable growth via zero incidents of non-compliance and corruption, increase green financing and strengthening disclosures with additional frameworks such as TCFD, CDP and SASB.</p>							
<b>Keep your eye on</b>	Some of MUST's ESG scores that rank lower, according to Refinitiv, include environmental innovation (D+), shareholders (D-) and community (D). To improve its scores, MUST is working together with its Asset Manager to develop a model to identify GHG reduction opportunities, including projecting GHG emissions reduction scenarios and identifying the financial implications of a GHG reduction strategy.			<b>Implications</b> Our current valuations have not ascribed a premium/discount for its ESG achievements. As MUST continues on its ESG journey, its overall ESG score should continue to improve.			
<b>ESG highlights</b>	According to Refinitiv, MUST ranks 42 <sup>nd</sup> within its coverage of Singapore companies and 13 <sup>th</sup> in the REIT space. Some of MUST's key ESG achievements in FY21 include lowering its energy and water intensity by 20.8% and 36.6% yoy respectively, and reducing its GHG intensity by 2%, from FY18 baseline. An estimated 70% of current portfolio have achieved green certification. Following its July 2022 debt refinancing exercise, 67% of its debt are made up of green or sustainability-linked loans. To bolster gender diversity of its Board, 50% of its Independent Directors are female. In addition, MUST indicated that 100% of its employees' pay are linked to the company's sustainability performance.			<b>Implications</b> We have not applied any premium/discount on ESG in our fundamental valuations. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.			
<b>Trends</b>	Among the various pillars, MUST scores well in workforce (B+), management (A) and emissions (B).			<b>Implications</b> We have not applied any premium/discount for ESG in our fundamental valuations.			

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**Figure 1: Key earnings and TP revisions**

FYE Dec (US\$m)	Previous			New			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Gross revenue	210.6	216.6	217.4	210.6	216.6	217.4	0.00%	0.00%	0.00%
Distribution income	91.2	95.2	97.6	89.3	92.3	95.6	-2.1%	-3.1%	-2.0%
DPU (UScts)	5.15	5.33	5.40	5.04	5.14	5.24	-2.1%	-3.5%	-2.9%
Cost of equity (%)		7.84%			8.44%				
TP (US\$)		0.78			0.69				

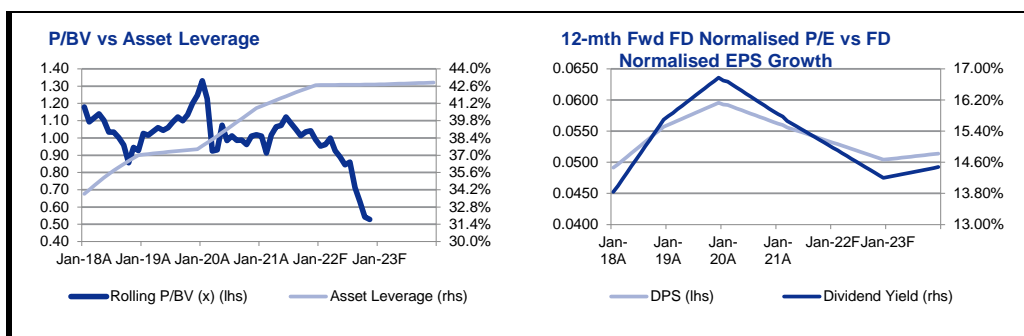
SOURCES: CGS-CIMB RESEARCH estimates

**Figure 2: SREIT peer comparison table**

SREIT	Bloomberg Ticker	Rec.	Price (LC) as at 02 Nov 22	Target Price (LC) (DDM-based)	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY22F Yield	FY23F Yield	FY24F Yield
<b>Hospitality</b>											
CapitaLand Ascott Trust	CLAS SP	Add	0.99	1.25	\$2,402	35.8%	1.16	0.85	5.7%	6.6%	7.3%
CDL Hospitality Trust	CDREIT SP	Add	1.20	1.30	\$1,052	39.5%	1.31	0.92	4.9%	6.2%	7.0%
Far East Hospitality Trust	FEHT SP	Add	0.61	0.73	\$859	33.3%	0.85	0.71	5.1%	7.4%	8.2%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$967	39.3%	0.65	0.74	5.0%	5.2%	5.3%
<b>Simple Average</b>						<b>37.0%</b>		<b>0.80</b>	<b>5.2%</b>	<b>6.4%</b>	<b>6.9%</b>
<b>Industrial</b>											
AIMS AMP	AAREIT SP	NR	1.25	NA	\$698	33.6%	1.34	0.93	6.9%	7.2%	7.3%
CapitaLand Ascendas REIT	CAREIT SP	Add	2.68	2.98	\$7,976	37.3%	2.31	1.16	6.2%	6.5%	6.7%
ESR-LOGOS REIT	EREIT SP	Add	0.37	0.44	\$1,732	40.2%	0.36	1.01	8.2%	8.2%	8.2%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.11	1.53	\$2,906	29.2%	1.32	0.84	7.0%	6.9%	7.1%
Keppel DC REIT	KDCREIT SP	Add	1.77	2.12	\$2,154	36.1%	1.33	1.33	5.7%	6.1%	6.4%
Mapletree Industrial Trust	MINT SP	Add	2.23	2.61	\$4,272	37.8%	1.93	1.16	5.9%	6.2%	6.3%
Mapletree Logistics Trust	MLT SP	Add	1.57	1.91	\$5,342	37.0%	1.46	1.08	5.6%	5.5%	5.5%
Sabana Shariah	SSREIT SP	NR	0.42	NA	\$352	33.4%	0.51	0.82	na	na	na
<b>Simple Average</b>						<b>35.6%</b>		<b>1.13</b>	<b>6.5%</b>	<b>6.6%</b>	<b>6.8%</b>
<b>Office</b>											
Keppel REIT	KREIT SP	Add	0.92	1.14	\$2,439	38.4%	1.33	0.69	6.5%	6.7%	6.8%
OUE Commercial REIT	OUECT SP	Hold	0.32	0.39	\$1,238	39.4%	0.57	0.56	7.6%	7.8%	7.5%
Suntec REIT	SUN SP	Add	1.31	1.55	\$2,669	43.1%	2.13	0.61	7.2%	6.9%	6.8%
<b>Simple Average</b>						<b>40.3%</b>		<b>0.62</b>	<b>7.1%</b>	<b>7.1%</b>	<b>7.0%</b>
<b>Retail</b>											
CapitaLand Integrated Commercial	CICT SP	Add	1.94	2.35	\$9,115	41.2%	2.07	0.94	5.5%	5.6%	5.9%
Frasers Centrepoint Trust	FCT SP	Add	2.05	2.48	\$2,474	33.3%	2.31	0.89	6.0%	6.1%	6.4%
Lendlease Global Commercial REIT	LREIT SP	Add	0.73	1.02	\$1,178	40.0%	0.78	0.94	4.3%	6.9%	7.0%
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.67	1.98	\$6,191	40.1%	1.81	0.92	5.7%	6.0%	6.0%
SPH REIT	SPHREIT SP	Hold	0.89	0.96	\$1,774	30.3%	0.91	0.98	7.9%	6.0%	6.1%
Starhill Global REIT	SGREIT SP	Add	0.53	0.58	\$844	36.1%	0.80	0.66	7.2%	7.5%	8.0%
<b>Simple Average</b>						<b>36.8%</b>		<b>0.89</b>	<b>6.1%</b>	<b>6.3%</b>	<b>6.6%</b>
<b>Overseas-centric</b>											
CapitaLand China Trust	CLCT SP	NR	1.00	NA	\$1,388	34.7%	1.55	0.65	7.9%	8.5%	8.7%
Elite Commercial REIT	ELITE SP	Add	0.50	0.76	\$274	41.9%	0.62	0.80	10.1%	10.9%	11.0%
Manulife US REIT	MUST SP	Add	0.36	0.69	\$631	42.5%	0.68	0.52	14.2%	14.5%	14.8%
Sasseur REIT	SASSR SP	Add	0.73	1.06	\$635	26.5%	0.96	0.76	10.1%	10.5%	10.9%
<b>Simple Average</b>						<b>38.3%</b>		<b>0.68</b>	<b>10.6%</b>	<b>11.1%</b>	<b>11.3%</b>
<b>Healthcare</b>											
Parkway Life REIT	PREIT SP	Hold	3.94	5.06	\$1,689	32.5%	2.41	1.63	3.6%	3.7%	3.7%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS  
 NR estimates are based on Bloomberg consensus forecasts

## BY THE NUMBERS



### Profit & Loss

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	194.3	185.1	210.6	216.6	217.4
Other Revenues					
<b>Gross Property Revenue</b>	<b>194.3</b>	<b>185.1</b>	<b>210.6</b>	<b>216.6</b>	<b>217.4</b>
Total Property Expenses	(78.5)	(75.6)	(84.9)	(85.4)	(83.5)
<b>Net Property Income</b>	<b>115.8</b>	<b>109.5</b>	<b>125.7</b>	<b>131.2</b>	<b>133.9</b>
General And Admin. Expenses					
Management Fees	(8.9)	(8.6)	(8.6)	(8.9)	(9.7)
Trustee's Fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Other Operating Expenses	(2.6)	(2.5)	(3.1)	(3.1)	(3.2)
<b>EBITDA</b>	<b>104.0</b>	<b>98.2</b>	<b>113.8</b>	<b>118.9</b>	<b>120.8</b>
Depreciation And Amortisation					
<b>EBIT</b>	<b>104.0</b>	<b>98.2</b>	<b>113.8</b>	<b>118.9</b>	<b>120.8</b>
Net Interest Income	(29.6)	(29.1)	(33.0)	(35.3)	(34.7)
Associates' Profit					
Other Income/(Expenses)					
Exceptional Items	(128.5)	(42.4)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>(54.1)</b>	<b>26.7</b>	<b>80.8</b>	<b>83.5</b>	<b>86.1</b>
Taxation	22.7	(1.1)	(1.2)	(1.3)	(1.3)
Minority Interests					
Preferred Dividends					
<b>Net Profit</b>	<b>(31.4)</b>	<b>25.5</b>	<b>79.6</b>	<b>82.3</b>	<b>84.8</b>
<b>Distributable Profit</b>	<b>89.0</b>	<b>85.6</b>	<b>89.3</b>	<b>92.3</b>	<b>95.6</b>

### Cash Flow

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Pre-tax Profit</b>	<b>(54.1)</b>	<b>26.7</b>	<b>80.8</b>	<b>83.5</b>	<b>86.1</b>
Depreciation And Non-cash Adj.	29.6	29.1	33.0	35.3	34.7
Change In Working Capital	1.8	6.1	7.3	1.7	0.3
Tax Paid	(1.9)	0.0	(1.2)	(1.3)	(1.3)
Others	118.6	14.9	(33.0)	(35.3)	(34.7)
<b>Cashflow From Operations</b>	<b>93.9</b>	<b>76.7</b>	<b>86.9</b>	<b>84.0</b>	<b>85.1</b>
Capex	(24.2)	(30.0)	(25.0)	(25.0)	(15.0)
Net Investments And Sale Of FA	0.0	(201.0)	0.0	0.0	0.0
Other Investing Cashflow	0.2	0.0	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(24.0)</b>	<b>(230.9)</b>	<b>(25.0)</b>	<b>(25.0)</b>	<b>(15.0)</b>
Debt Raised/(repaid)	39.6	118.5	10.0	10.0	10.0
Equity Raised/(Repaid)	0.0	100.0	12.5	12.9	13.7
Dividends Paid	(70.7)	(84.0)	(89.3)	(92.3)	(95.6)
Cash Interest And Others	(30.6)	(31.4)	(33.0)	(35.3)	(34.7)
<b>Cash Flow From Financing</b>	<b>(61.7)</b>	<b>103.1</b>	<b>(99.8)</b>	<b>(104.8)</b>	<b>(106.7)</b>
Total Cash Generated	8.2	(51.1)	(37.8)	(45.8)	(36.6)
Free Cashflow To Firm	70.1	(154.2)	62.1	59.2	70.2
Free Cashflow To Equity	80.0	(64.8)	38.9	33.6	45.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Investments	1,993	2,184	2,209	2,234	2,249
Intangible Assets	0	0	0	0	0
Other Long-term Assets	0	6	6	6	6
Total Non-current Assets	1,993	2,190	2,215	2,240	2,255
Total Cash And Equivalents	87	79	74	63	61
Inventories	0	0	0	0	0
Trade Debtors	7	6	6	6	7
Other Current Assets	2	1	1	1	1
<b>Total Current Assets</b>	<b>95</b>	<b>86</b>	<b>82</b>	<b>71</b>	<b>69</b>
Trade Creditors	18	59	67	69	69
Short-term Debt	234	297	297	297	297
Other Current Liabilities	7	8	9	10	10
<b>Total Current Liabilities</b>	<b>259</b>	<b>364</b>	<b>373</b>	<b>375</b>	<b>375</b>
Long-term Borrowings	619	675	685	695	705
Other Long-term Liabilities	53	50	50	50	50
Total Non-current Liabilities	672	724	734	744	754
Shareholders' Equity	1,158	1,188	1,189	1,192	1,195
Minority Interests					
Preferred Shareholders Funds					
<b>Total Equity</b>	<b>1,158</b>	<b>1,188</b>	<b>1,189</b>	<b>1,192</b>	<b>1,195</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	9.3%	(4.7%)	13.8%	2.8%	0.4%
NPI Growth	4.6%	(5.4%)	14.8%	4.3%	2.1%
Net Property Income Margin	59.6%	59.2%	59.7%	60.6%	61.6%
DPS Growth	(5.19%)	(5.43%)	(5.61%)	1.96%	2.04%
Gross Interest Cover	3.50	3.37	3.43	3.35	3.46
Effective Tax Rate	0.00%	4.29%	1.50%	1.50%	1.50%
Net Dividend Payout Ratio	NA	335%	112%	112%	113%
Current Ratio	0.37	0.24	0.22	0.19	0.18
Quick Ratio	0.37	0.24	0.22	0.19	0.18
Cash Ratio	0.34	0.22	0.20	0.17	0.16
Return On Average Assets	(1.48%)	1.17%	3.48%	3.57%	3.66%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Net lettable area ('000sf)	4,650.4	5,412.4	5,412.4	5,412.4	5,412.4
AUM (US\$m)	1,992.8	2,208.3	2,230.4	2,252.7	2,275.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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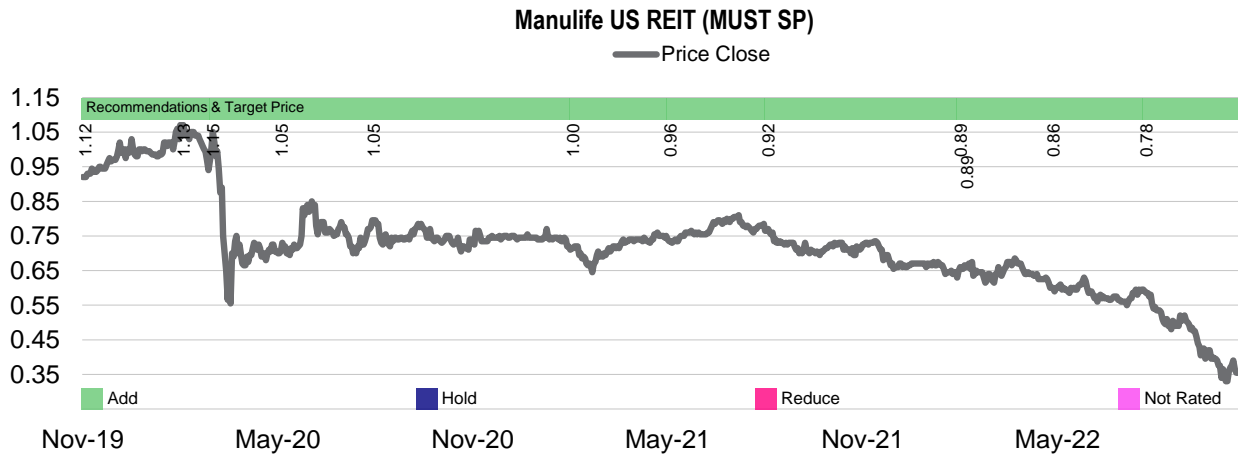
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	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



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