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Wednesday, 12 April 2023

Manulife US REIT Clarifies That Sponsor Will Retain Its Shareholding And Divestment Of Office Building to Sponsor.



Some good news finally! The manager of Manulife US REIT (MUST) released further clarifications on the Mirae deal in its recent strategic review updates. It is also heartening to note that MUST's sponsor (The Manufacturers Life Insurance Company) is not abandoning the REIT through a "golden parachute" deal packaged with the sales of the REIT manager as alleged by Quartz Capital (please read my [previous post](#)). In addition, with the challenges faced by MUST for asset dispositions mainly due to (i) rising interest rate environment, (ii) tight credit financing and (iii) grave uncertainty over market demand for office space, the sponsor has finally stepped in. As a show of support, the Tanasbourne office property was sold off to the sponsor for **US\$33.5Mil** on a willing buyer & willing seller basis by taking the higher of two valuations arrived by valuation specialists. The market has viewed the announcements by MUST positively and market pricing has reversed the huge plunge of **<12.25%>** to **US\$0.172 per unit** closing price in the previous day to **US\$0.184 per unit** as at the date and time of this posting. Nevertheless, there were still some major issues that were not resolved which I should elaborate further below:

1. Mirae is being brought in as a value adding strategic stakeholder to MUST but dilutive impact to unit-holders unresolved.

The management of MUST is in for a show down with other unit-holders over the dilutive impact of new units issuance to Mirae. Mirae will definitely not be subscribing for new shares priced at the NAV per unit level of US\$0.55 per unit as at 31 December 2022 if they can purchase MUST units at a fraction to that on the secondary stock market for less than US\$0.20 per unit.

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stakeholder to ensure access to its US asset pipeline across various sector classes (e.g. hospitality and logistics) which will allow MUST to execute its pivot strategy away from office properties. On the other hand, unit-holders along with Quartz Capital will be opposing deals that are highly dilutive to existing unit-holders as this is the worst time to issue out equity given that the unit price of MUST is pricing in fire-sales of distressed assets in the worst case scenario.

I do hope that MUST strike out a good balance to the above conflict and craft out an equity fund raising exercise that is on offer to all existing unit-holders out of fairness and also issue some additional new units to Mirae to align their interest. Else all parties will be ending up in a stalemate that is back to square one and detrimental to all stakeholders.

2. MUST managements need to be more transparent and timely in release of pertinent information

I was surprised that it took so long for MUST management to come out to calm investors by finally clarifying that its Sponsor is only selling away the REIT Manager and the Mirae Transaction does not involve Mirae acquiring the Sponsor's existing 9.1% unit holdings in MUST. There were a number of posts such as article on Business Times talking about the Mirae deal and the seemingly lack of support from a reluctant Sponsor as well as the shocking letter from Quartz Capital alleging that the Sponsor is trying to exit with a golden parachute. I trust that the reason for the delay in such announcement is not because an exit strategy indeed was one of the various options being contemplated by MUST and its Sponsor and it is merely a slip in proper business communication.

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Perhaps most importantly, how does MUST management expect to complete the Mirae deal with an unit price that is ever spiraling downwards? Personally, my thoughts are that more timely information and transparency will serve MUST well.

Parting thoughts

Summarising, the corporate restructuring for MUST will probably take a long time to complete. Unit-holders who still believe in MUST's future may need to start raising cash on hand in event of a rights issue. For me personally, I used to believe in MUST's management and the strength of its sponsor but as alluded to point number 2, the lack of timely disclosure coupled with the ridiculously low market price that smacks of the market pricing in a fire-sales of its assets is making me extremely nervous.

Posted by [Blade Knight](#) at [16:40](#) 

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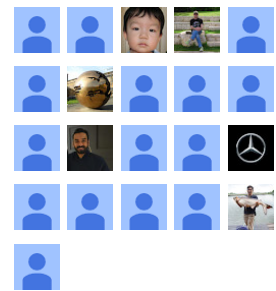
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