

2024, Quick REIT

Quick REIT - Exploring the Current State of MANULIFE US REIT: FY 2023 Report Update

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MANULIFE US REIT unveiled its FY2023 financial results on February 8, 2024. The REITsavvy team made a visit to MUST to attend the live briefing session and met with the management team. Here are key highlights that investors should know of.



FY 2023 Financial Results

8 February 2024



*Image from MUST REIT presentation slide

Quick Glance

In the fiscal year 2023, MANULIFE US REIT demonstrated growth with a 2.7% increase in gross revenue and a slight uptick of 1.3% in Net Property Income (NPI). It's heartening to witness these improvements despite the REIT experiencing distress.

However, there was a notable decline of 15.5% in Distribution Income for MUST, attributable to several factors: Decreased rental and recoveries income due to higher vacancies and increased property expenses.

Elevated finance costs due to rising interest rates and loss of income from the divestment of Tanasbourne in April 2023 and Park Place in December 2023.


Nevertheless, there were some positive contributions from: Increased lease termination fees. Higher carpark income.

Comparing year-over-year Net Asset Value (NAV), there was a significant 40% drop, influenced by factors such as property revaluation and property divestment to name a few.

MANULIFE US REIT Performance Update on 8 Feb 2024			
	FY 2022 S\$ '000	FY 2023 S\$ '000	Change %
Gross Revenue	202,559	208,025	2.7
Net Property Income	113,163	114,606	1.3
Distributable Income (DI)	87,870	74,292	(15.5)
DPU (US Cents)	4.75	Ceased till further notice	Not meaningful
NAV	0.55(a)	0.33	(40.0)

Remarks: Above data is extracted from <https://investor.manulifeusreit.sg/>

(a) Adjusted NAV excluding distributable income. Taken from Manulife US REIT FY2022 presentation slide.



Highlight 1 - Higher NPI?

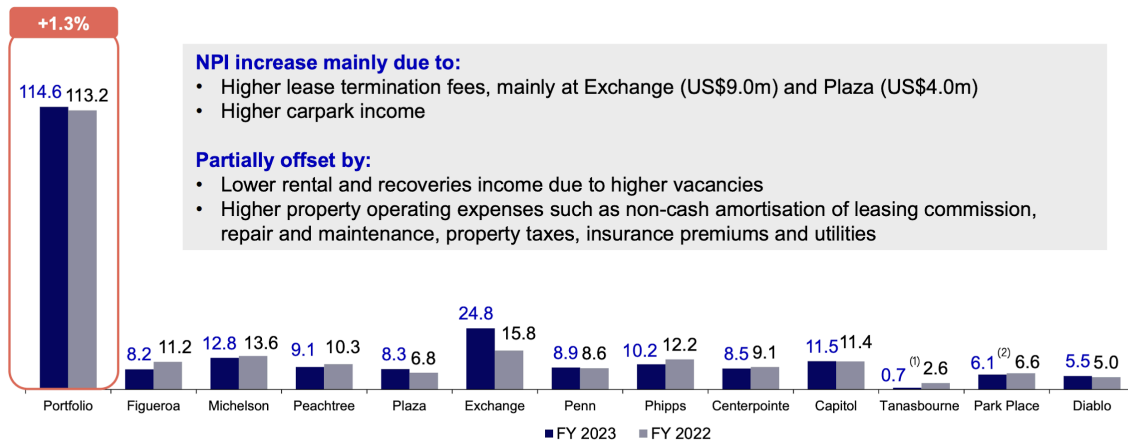
How can the Net Property Income (NPI) increase by 1.3% year-over-year despite higher operating expenses, increased interest costs, lower rental income, and higher vacancy rates?

The boost in NPI stems primarily from a one-time influx of termination fees, notably from Exchange contributing approximately US\$9.0 million and Plaza with around US\$4.0 million.

Without these additional termination fee inflows from the two properties, the overall NPI would have decreased to ~US\$101 million, resulting in a negative growth of approximately ~10.78% instead.

Portfolio NPI performance

NPI (US\$m)



Manulife
US REIT

(1) Tanasbourne was divested on 11 Apr 2023 (U.S. time). Please refer to the SGX announcement dated 12 Apr 2023 on the completion of divestment.
(2) Park Place was divested on 15 Dec 2023 (U.S. time). Please refer to the SGX announcement dated 18 Dec 2023 on the completion of divestment.

FY 2023 Financial Results

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*Image from MUST presentation slide

Highlight 2 - Debt Profile & MAS Leverage concern?

Debt Situation

Regarding its debt, there's no need for refinancing in 2024. Additionally, MUST plans to utilize its cash reserves to pay off the US\$50.0 million of debt by March 31, 2024, shown in the diagram.

MAS Aggregate Leverage

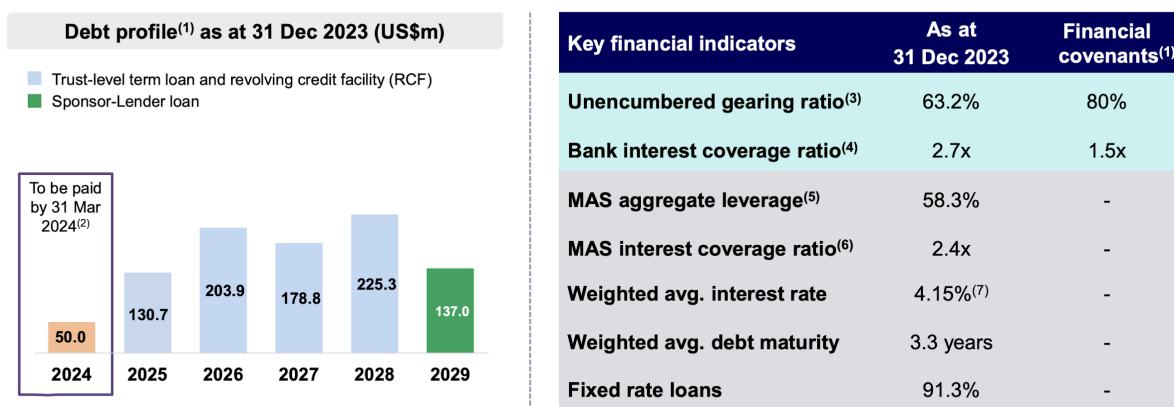
At first glance, the aggregate leverage appears to exceed the limit imposed by MAS. However, MUST asserts that it's not in violation but is restricted from taking on more debt.

MUST:

"According to the Monetary Authority of Singapore's (MAS) Property Funds Appendix, the aggregate leverage limit is not considered to be breached if exceeding the limit is due to a decline in portfolio valuation, which is beyond the Manager's control. However, the Manager will not be able to incur additional indebtedness and will have to fund capex, tenant improvement allowance and leasing costs with available cash, cash from operations and any disposition proceeds."

As of now, everything appears to be in order.

Covenants relaxed⁽¹⁾; all existing debt maturities extended



- (1) Under the Master Restructuring Agreement, all loan maturities of the existing facilities have been extended by one year and financial covenants have been temporarily relaxed until 31 Dec 2025.
(2) Pursuant to the Recapitalisation Plan, MUST is to utilise its cash holdings to pay down US\$50.0m of debt on a pari passu basis by 31 Mar 2024.
(3) Unencumbered gearing ratio refers to the ratio of consolidated total unencumbered debt to consolidated total unencumbered assets per MUST's loan agreements.
(4) As defined in the facility agreements, the bank ICR is the ratio of consolidated EBITDA (excluding effects of any fair value changes of derivatives and investment properties, base and property management fees paid in Units), to consolidated interest expense (excluding non-cash amortisation of upfront transaction costs and the Sponsor-Lender loan exit premium).
(5) Based on gross borrowings as a percentage of total assets. As set out in the CIS Code, the aggregate leverage limit is not considered to be breached. See slide 5, footnote 2.
(6) Computed by dividing the trailing 12 months earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months interest expense and borrowing-related fees as set out in the CIS Code.
(7) Excludes Sponsor-Lender loan exit premium. Including the Sponsor-Lender loan exit premium, the weighted average interest rate would be 4.55%.

*Image from MUST presentation slide

Highlight 3 - Management

At present, MUST continues to face challenges and encounters several new obstacles that must be overcome. There remains a considerable amount of work ahead to ensure progress in the right direction.

Despite the demanding journey thus far and the challenges ahead, the management has maintained transparency in its progress and actively communicates with its stakeholders.

This proactive approach is crucial during times of crisis, as it demonstrates the commitment of the leadership and team to address issues head-on and provide updates on execution strategies. Such active engagement provides some confidence to investors in these times.



*Image from MUST IR

Conclusion

MUST is currently undergoing restructuring, a process that demands time and patience. Given the dynamic nature of the market, unforeseen challenges may arise beyond the REIT control.

However, what can be controlled is the transparency of the management team, actively overseeing the portfolio and finances to minimize or eliminate avoidable missteps.

In such circumstances, success isn't about **timing the market** but rather about **time in the market**. With robust support from strong backers, there's a greater likelihood of not only surviving but emerging stronger from the valuable lessons learned.

We are pleased to have had the opportunity to engage in a face-to-face discussion with Tripp Gantt, the CEO of MANULIFE US REIT and his team.



Invest wisely, REITsavvy Readers!