COMPANY RESULTS

Manulife US REIT (MUST SP)

3Q23: Inching Closer To Resolution On Loan Restructuring

MUST achieved rent reversion of +24.2% in 3Q23 driven by lease renewal by its fourth-largest tenant, Kilpatrick Townsend, at 1100 Peachtree in Midtown Atlanta. Management is negotiating with lenders on a waiver for the breach of financial covenant and working with its sponsor on formulating a sponsor support scheme. It targets to announce the loan restructuring by end-23 and hold its EGM in 1Q24. Valuation is attractive with 2024 distribution yield at 18.8% and P/NAV at 0.39x. Maintain BUY. Target price: US$0.18.

RESULTS

- Manulife US REIT's (MUST) 3Q23 operational updates were in line with our expectation.
- **Strengthening of positive rental reversion.** Portfolio occupancy eased marginally by 0.4ppt qoq to 84.7% as of Sep 23. MUST achieved positive rent reversions of +24.2% (1Q23: +5.0%, 2Q23: -2.5%) and long WALE of 5.8 years for 193,000sf of leases executed in 3Q23. These leases were predominantly renewals. The renewal of Kilpatrick Townsend lease contributed significantly to the strong positive reversion.
- **Lease renewed for fourth-largest tenant.** MUST has secured lease renewal for Kilpatrick Townsend, its largest tenant at 1100 Peachtree in Midtown Atlanta, for 65 months (5.4 years) till 31 Dec 30. Kilpatrick Townsend is MUST's 4th largest tenant with occupancies of 163,076sf at 1100 Peachtree (one third of NLA). MUST is committed to investing US$18m to renovate the ground floor (glass storefront system, lobby area and addition of an upscale coffee bar) and common areas (building exterior and landscaping) of 1100 Peachtree, which is expected to complete in 2025.
- **Companies tightening return-to-office mandates.** Management observed that physical occupancy has improved 8ppt yoy for the US office market due to companies issuing strict return-to-office mandates. Active tenant requirements have expanded 3% qoq in gateway markets, which typically precedes recovery by 2-3 quarters. MUST's physical occupancy has improved to 35-40% compared with 30% previously.
- **Gearing remains elevated.** Aggregate leverage was stable at 56% as of Sep 23. MUST has lowered its unencumbered gearing ratio from 60.2% to 59.9%, below the threshold of 60%, through a good faith payment made in Aug 23. Unfortunately, the breach has already occurred and has to be expressly waived by lenders. Its average cost of debt has increased 0.28ppt qoq to 4.38% as some hedges have rolled off.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F^	2025F^
Net turnover	185	203	193	167	167
EBITDA	98	102	95	83	84
Operating profit	98	102	95	83	84
Net profit (rep./act.)	39	(130)	(365)	73	79
Net profit (adj.)	68	86	54	47	50
EPU (US$ cent)	4.2	4.9	2.9	1.1	0.8
DPU (US$ cent)	5.3	4.8	(0.0)	1.0	1.0
PE (x)	1.4	1.2	2.0	4.7*	4.4*
P/B (x)	0.1	0.1	0.2	0.4*	0.4*
DPU Yld (%)	91.9	81.9	0.0	18.8*	20.0*
Net margin (%)	21.3	(64.0)	(189.5)	43.5	47.2
Net debt/(cash) to equity (%)	75.2	89.8	106.4	57.2	60.9
Interest cover (x)	3.4	3.0	2.5	2.6	2.9
ROE (%)	3.4	n.a.	n.a.	9.4	8.8
Consensus DPU (US$ cent)	n.a.	n.a.	2.0	2.6	2.6
UOBKH/Consensus (x)	-	-	n.m.	0.38	0.40

^ Fully diluted for 2,427:1,000 rights issue @ US$0.05.
** Based on theoretical ex-rights unit price of US$0.0523.*
Source: Manulife US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US$0.058
Target Price	US$0.180
Upside	+210.3%
(Previous TP	*US$0.220)*

COMPANY DESCRIPTION

MUST is the first pure play US office REIT listed in Asia. It invests in a portfolio of income-producing office real estate in key markets in the US. Its portfolio comprises 12 freehold office properties in Arizona, California, Georgia, New Jersey, Oregon, Virginia and Washington DC with NLA of 5.5m sf and valued at US$1.9b as of Dec 22.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MUST SP
Shares issued (m):	1,776.6
Market cap (US$m):	94.2
Market cap (US$m):	94.2
3-mth avg daily t'over (US$m):	0.7

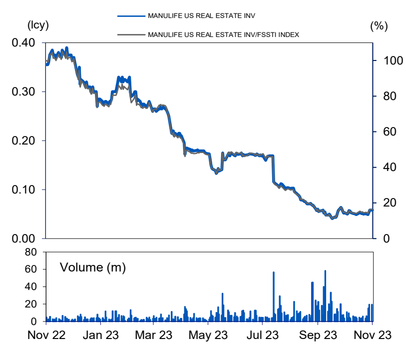
Price Performance (%)

52-week high/low US$0.39/US$0.041

1mth	3mth	1mth	3mth	1mth
(17.2)	(48.5)	(70.4)	(85.1)	(82.3)

Major Shareholders	%
Manulife Financial Corp	9.1
FY23 NAV/Share (USS$)	0.35
FY23 Net Debt/Share (USS$)	0.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
+65 6590 6620
jonathankoh@uobkayhian.com

STOCK IMPACT

- **Resolution on loan restructuring in sight.** Management is negotiating with lenders on a waiver for the breach of financial covenant. It is working with its sponsor on formulating a comprehensive sponsor support scheme. MUST will also seek unitholders' approval for a disposition mandate. Management appeal to unitholders' understanding as it strives to finalise a package of solutions to bring MUST forward. Management targets to announce the loan restructuring by end-23 and hold its EGM in 1Q24.
- **US office remains a tenant's market.** According to CBRE, leasing volume for the US office market has slowed and declined 27% yoy to 40.6m sf in 3Q23. Vacancy rate has increased 0.2ppt qoq to 18.4%, the highest in 30 years, due to the completion of 8.6m sf of new office space. Net absorption was negative at 4.0m sf in 3Q23, the 4th consecutive quarter of negative demand, due to companies' efforts in cost containment in light of popularity of hybrid work arrangements. Available sublease space eased 1.8m sf qoq but remains elevated at 191m sf.
- **Appointed new chairman.** Marc Lawrence Feliciano was appointed Chairman of MUST on 26 Oct 23. Mr Feliciano is currently the Global Head of Real Estate, Private Markets for Manulife Investment Management. He has three decades of experience in public and private real estate investment management in the US. He oversees all aspects of the real estate business globally, including portfolio management, investments and asset management. He also supervises the integration of sustainability into both investments and operations.

EARNINGS REVISION/RISK

- We have cut our fully diluted 2024 DPU by 26% to 0.99 US cents due to higher cost of debt. It is difficult to assess the impact of loan restructuring on average cost of debt. We have assumed that average cost of debt will increase by 50bp to 4.9% in 2024.
- **Erosion in capital values.** We estimated fair value of MUST's investment properties to drop 22% or US$419m (1H23: US$280m, 2H23: US$139m), to US$1,342m as at end-23 assuming direct cap rate for its portfolio expands 100bp to 7.0%. Thus, we expect aggregate leverage to increase and hit 52% at end-23.
- **Deleveraging through divestment.** Management intends to divest non-core assets but has not shared details on candidates for divestiture. We have tentatively assumed that MUST will divest Phipps Tower at Atlanta to sponsor Manulife Insurance at a valuation of US$178m obtained during the mid-year review.
- **Factoring in equity fund raising.** We have hypothetically assumed that MUST embarks on a 2,427:1,000 rights issue with issue price at US$0.05 to raise US$230m and reduce aggregate leverage to 38.0% at end-24. The hypothetical rights issue serves to equalise leverage across the different US office REITs and make peer comparison more meaningful. Equity fund raising is also inevitable after the loan restructuring. There is execution risk associated with launching a rights issue. Nevertheless, a rights issue has the virtue of not diluting minority unitholders' interest.
- **Halted distribution in 2023.** We assumed that MUST retains distributable income of US$49.5m in 2023. The distributable income retained is subject to US withholding tax at 30%. We expect company to resume its usual distribution in 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US$0.18 is based on DDM (cost of equity: 10.5%, terminal growth: 0.0%) fully diluted for 2,427:1,000 rights issue at issue price of US$0.05 per unit but adjusted for rights entitlements.

SHARE PRICE CATALYST

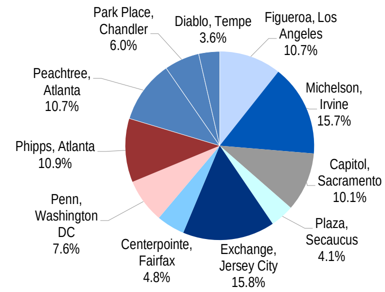
- Deleveraging to address the drop in portfolio valuation and higher aggregate leverage.

KEY OPERATING METRICS

Key Metrics	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % chg	qoq % chg*
DPU (US cents)	n.a.	2.14	n.a.	0.00	n.a.	n.a.	n.a.
Occupancy	88.1%	88.0%	86.1%	85.1%	84.7%	-3.4ppt	-0.4ppt
Aggregate Leverage	42.5%	48.8%	49.5%	56.7%	56.0%	13.5ppt	-0.7ppt
Average Cost of Debt	3.34%	3.74%	3.98%	4.10%	4.38%	1.1ppt	0.3ppt
% Borrowing in Fixed Rates	81.1%	77.3%	80.2%	80.2%	69.2%	-11.9ppt	-11ppt
WALE by NLA (years)	4.9	4.7	5.0	7.6	5.1	0.2yrs	-2.5yrs
Weighted Average Debt Maturity (years)	3.1	2.4	2.7	2.5	2.3	-0.8yrs	-0.2yrs
Rental Reversions	4.3%	0.7%	5.0%	-2.5%	24.2%	19.9ppt	26.7ppt

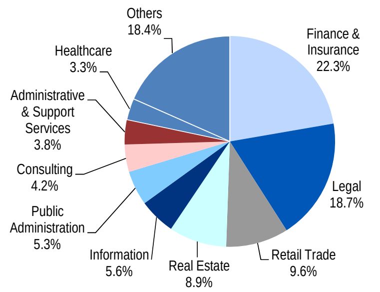
*Source: MUST * hoh % change for DPU*

PORTFOLIO VALUATION BY PROPERTY (JUN 23)



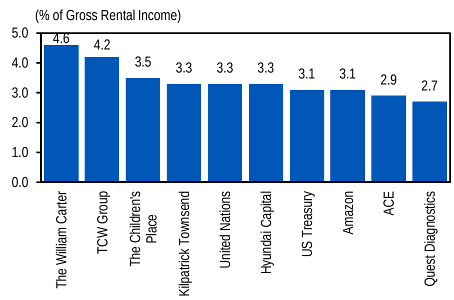
Source: MUST

TRADE SECTOR BY GRI (SEP 23)



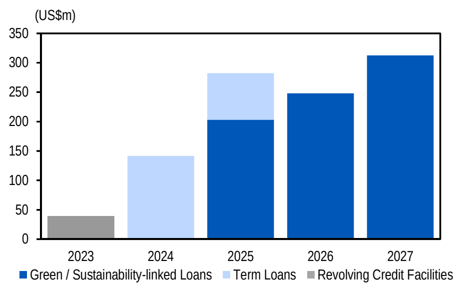
Source: MUST

TOP 10 TENANTS (SEP 23)



Source: MUST

DEBT MATURITY PROFILE (SEP 23)



Source: MUST

PROFIT & LOSS

Year to 31 Dec (US$m)	2022	2023F	2024F^	2025F^
Net turnover	202.6	192.6	166.6	167.4
EBITDA	101.7	95.3	83.5	83.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	101.7	95.3	83.5	83.8
Net interest income/(expense)	(33.9)	(37.7)	(32.7)	(29.1)
Pre-tax profit	(147.8)	(361.4)	76.4	83.4
Tax	18.1	(3.5)	(3.8)	(4.3)
Net profit	(129.7)	(364.9)	72.5	79.1
Net profit (adj.)	85.9	54.1	47.0	50.4

BALANCE SHEET

Year to 31 Dec (US$m)	2022	2023F	2024F^	2025F^
Fixed assets	1,947.0	1,341.5	1,392.1	1,445.8
Other LT assets	47.7	47.7	47.7	47.7
Cash/ST investment	112.9	62.4	63.7	64.5
Other current assets	8.3	8.3	7.6	7.7
Total assets	2,115.9	1,459.9	1,511.1	1,565.6
ST debt	144.6	144.6	144.6	144.6
Other current liabilities	39.8	37.3	32.4	32.5
LT debt	884.4	615.0	430.0	470.0
Other LT liabilities	26.8	7.5	10.9	15.2
Shareholders' equity	1,020.3	655.4	893.3	903.2
Total liabilities & equity	2,115.9	1,459.9	1,511.1	1,565.6

CASH FLOW

Year to 31 Dec (US$m)	2022	2023F	2024F^	2025F^
Operating	92.0	65.9	46.0	54.9
Pre-tax profit	(147.8)	(361.4)	76.4	83.4
Tax	(0.1)	0.0	0.0	0.0
Working capital changes	1.2	(2.6)	(4.8)	0.2
Non-cash items	229.6	425.3	(19.9)	(22.6)
Other operating cashflows	9.0	4.5	(5.6)	(6.0)
Investing	(25.4)	153.0	(25.0)	(25.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(25.4)	(25.0)	(25.0)	(25.0)
Proceeds from sale of assets	0.0	178.0	0.0	0.0
Financing	(32.4)	(269.3)	(19.7)	(29.2)
Distribution to unitholders	(58.0)	0.0	(64.7)	(69.2)
Issue of shares	0.0	0.0	230.0	0.0
Proceeds from borrowings	16.8	(269.4)	(185.0)	40.0
Others/interest paid	8.8	0.0	0.0	0.0
Net cash inflow (outflow)	34.2	(50.4)	1.3	0.7
Beginning cash & cash equivalent	78.6	112.9	62.4	63.7
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	112.8	62.4	63.7	64.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F^	2025F^
Profitability				
EBITDA margin	50.2	49.5	50.1	50.1
Pre-tax margin	(73.0)	(187.6)	45.8	49.8
Net margin	(64.0)	(189.5)	43.5	47.2
ROA	n.a.	n.a.	4.9	5.1
ROE	n.a.	n.a.	9.4	8.8
Growth				
Turnover	9.4	(4.9)	(13.5)	0.5
EBITDA	3.5	(6.3)	(12.4)	0.4
Pre-tax profit	(464.5)	n.a.	n.a.	9.2
Net profit	(429.1)	n.a.	n.a.	9.0
Net profit (adj.)	26.4	(37.1)	(13.1)	7.3
EPU	14.7	(39.8)	(62.1)	(31.4)
Leverage				
Debt to total capital	50.2	53.7	39.1	40.5
Debt to equity	100.8	115.9	64.3	68.1
Net debt/(cash) to equity	89.8	106.4	57.2	60.9
Interest cover (x)	3.0	2.5	2.6	2.9

^ Fully diluted for 2,427:1,000 rights issue @ US$0.05.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://research.uobkayhian.com

RCB Regn. No. 197000447W