

### COMPANY UPDATE

## Manulife US REIT (MUST SP)

3Q21 Update: Proxy To US Office Recovery

For 3Q21, MUST's overall portfolio occupancy dipped slightly to 90.9% even as leasing sentiment improved. New leases formed 32% of total leases signed while about 453,000sf of leases were executed at +1.3% positive rental reversion. MUST continues to highlight its plans to capture demand from high-growth trade sectors such as tech and healthcare tenants. Maintain BUY with a same target price of US\$0.84.

### WHAT'S NEW

- **3Q21 update.** Manulife US REIT (MUST) provided operating metrics for 3Q21 with no financials given.

### ESSENTIALS

- **Lower portfolio occupancy.** Overall portfolio occupancy fell to 90.9% (2Q21: 91.7%) due to tenants downsizing and non-renewals. However, MUST's occupancy rate is still above US Class-A's average occupancy of 83%. MUST also stated that portfolio occupancy improved to 91.6% post 3Q21 results. Michelson, (approximately 16% of portfolio AUM) saw portfolio occupancy rise to 87.2% (+6.8ppt qoq).
- **Improving physical occupancy boosts carpark income.** 3Q21 overall average physical occupancy improved to 20-30% from 15% in 2Q21 across MUST's portfolio, with the highest being at 60%. With carpark income historically contributing roughly 6-7% of total annual revenue, improving physical occupancy would help underpin a recovery in carpark income and total revenue from 2022 onwards.
- **Stronger leasing sentiment.** Improving tenant sentiment among corporates was seen across MUST's portfolio as new leases formed 32.3% of leases signed in 3Q21 as compared with 3.3% in 2Q21. As of Sep 21, about 453,000sf of leases have been executed ytd (9.7% of portfolio), with positive reversion of +1.3%.
- **Steady WALE.** MUST's portfolio with a long weighted average lease expiry (WALE) of 5.1 years remains intact as 52.0% of leases by NLA are expiring in 2026 and beyond. Expiring leases in 2021-22 by NLA have softened to 12.6% from 16.0% in 2Q21. Overall rental collections in 3Q21 were robust at 99.6%. The top 10 tenants, mostly from retail trade, finance and legal sectors, form 36.2% of the total gross rental income and had 100% rental collections.
- **Gearing remains steady.** Gearing levels remained unchanged at 42.0% (2Q21:42.1%) in 3Q21. With debt headroom of about US\$300m (50% gearing), we reckon MUST may add on acquisitions due to favourable macroeconomic tailwinds. MUST has earmarked emerging industries such as tech and healthcare as their next focus.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2019	2020	2021F	2022F	2023F
Net turnover	178	194	195	197	200
EBITDA	98	104	112	114	116
Operating profit	98	104	112	114	116
Net profit (rep./act.)	48	(43)	82	87	89
Net profit (adj.)	62	97	82	87	89
EPU (US\$ cent)	4.4	6.2	5.2	5.5	5.5
DPU (US\$ cent)	5.9	5.6	5.8	5.9	6.0
PE (x)	16.2	11.5	13.7	13.0	12.9
P/B (x)	0.9	1.0	1.0	1.0	1.0
DPU Yld (%)	8.4	7.9	8.2	8.2	8.4
Net margin (%)	26.7	(22.3)	42.2	44.4	44.7
Net debt/(cash) to equity (%)	59.7	66.1	65.1	63.5	62.4
Interest cover (x)	3.8	3.5	4.0	4.5	4.6
ROE (%)	4.1	n.a.	7.1	7.5	7.6
Consensus DPU (US\$ cent)	n.a.	n.a.	5.7	5.9	6.0
UOBKH/Consensus (x)	-	-	1.02	0.99	0.99

Source: MUST, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$0.71
Target Price	US\$0.84
Upside	+18.3%

### COMPANY DESCRIPTION

US office REIT with a portfolio of prime, freehold and Class A or Trophy quality office properties strategically located in Los Angeles; Irvine, Orange County; New Jersey; Atlanta; Washington D.C.; Fairfax; and Sacramento.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MUST SP
Shares issued (m):	1,600.1
Market cap (US\$m):	1,136.1
Market cap (US\$m):	1,136.1
3-mth avg daily t'over (US\$m):	1.4

### Price Performance (%)

52-week high/low US\$0.81/US\$0.645

1mth	3mth	6mth	1yr	YTD
(0.7)	(9.0)	(4.7)	(2.1)	(4.7)

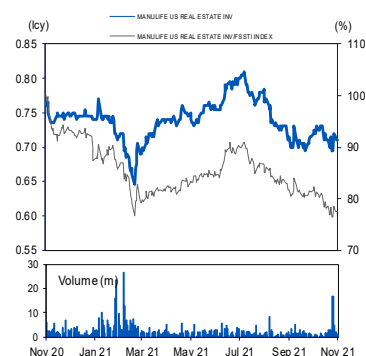
### Major Shareholders

Manulife Financial Corp	9.2
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FY21 NAV/Share (US\$) 0.73

FY21 Net Debt/Share (US\$) 0.47

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Recovery of US office market underway.** The US economy is facing a strong recovery as more of its population gets fully vaccinated and it is backed by strong government support/spending. According to the US Department of Labour, the country registered the lowest unemployment rate at 4.8% in Sep 21 since Mar 20 (4.4%). IMF has also forecast US' 2021 GDP to grow by 6.0% despite a spike in Delta cases.
- Strong momentum.** This has spilled over into the US office sector as 3Q21 leasing volumes were up 12.8% qoq while average tenures have increased from 7.4 to 7.7 years. Tenant incentives (-2.4% qoq) and rent-free periods have already started to soften and stabilise respectively while base (+0.9%) and net effective rents (+2.5%) have trended upwards qoq. Subleasing has declined for the first time since the emergence of COVID-19 at 1.6% qoq. Looking forward, with strong industry tailwinds, we reckon this would translate into stronger leasing environment and occupancy rates for MUST.
- Moving into new exciting sectors.** MUST continues to highlight its plans to capture the demand from high-growth trade sectors such as tech and healthcare tenants. Current tenant exposure in such sectors accounts for 10% of MUST's portfolio and it plans to push it to 20%. This could also take the form of JVs or M&As, through the acquisition of yield-accretive properties or portfolio. MUST prefers key locations with strong fundamentals such as cities with robust population growth, increasing rental rates and cap rates of 6.5-7.0%. An example is the Sun Belt region which has seen a 1.6% growth in population size p.a., and has a lower cost of living compared with gateway cities. Management has noted that MUST has been actively searching for deals and has already assessed close to 40 deals ytd.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of US\$0.84,** based on DDM (required rate of return: 8.0% terminal growth: 1.0%).
- Key risks: Slowdown in the US economy, affecting demand for office space.

### SHARE PRICE CATALYST

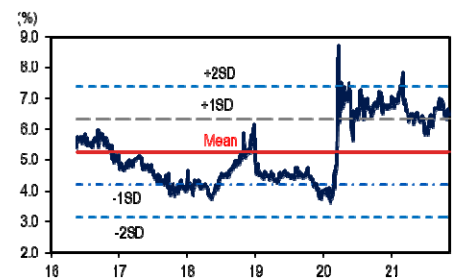
- Better-than-expected rental reversion.
- Return to offices in the US.

### MUST: YIELD



Source: Bloomberg, UOB Kay Hian

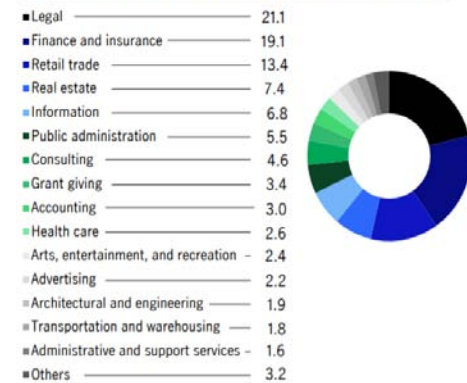
### MUST: YIELD SPREAD



Source: Bloomberg, UOB Kay Hian

### MUST: GRI SECTOR BREAKDOWN

#### Trade sector by gross rental income (GRI) (%)



Source: MUST

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
Net turnover	194.3	194.9	196.6	199.6
EBITDA	104.0	111.9	114.4	116.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	104.0	111.9	114.4	116.2
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(29.6)	(28.3)	(25.6)	(25.5)
Pre-tax profit	(66.0)	83.6	88.8	90.7
Tax	22.7	(1.4)	(1.5)	(1.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	(43.3)	82.2	87.3	89.2
Net profit (adj.)	97.1	82.2	87.3	89.2

### CASH FLOW

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
Operating	82.0	133.8	136.9	134.3
Pre-tax profit	(66.0)	83.6	88.8	90.7
Tax	22.7	(1.4)	(1.5)	(1.5)
Deprec. & amort.	(0.7)	(1.0)	(1.0)	(1.0)
Associates	0.0	0.0	0.0	0.0
Working capital changes	(5.4)	5.5	5.6	1.0
Non-cash items	154.1	18.8	19.4	19.6
Other operating cashflows	(22.8)	28.3	25.6	25.5
Investing	(24.0)	(3.3)	(3.2)	(3.1)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(24.2)	(4.0)	(4.0)	(4.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.2	0.7	0.8	0.9
Financing	(32.2)	(121.2)	(120.2)	(122.6)
Distribution to unitholders	(70.7)	(92.2)	(93.8)	(96.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	39.6	0.0	0.0	0.0
Others/interest paid	(1.0)	(29.0)	(26.4)	(26.4)
Net cash inflow (outflow)	25.9	9.3	13.5	8.5
Beginning cash & cash equivalent	60.7	86.7	96.0	109.5

### BALANCE SHEET

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
Fixed assets	1,992.8	1,997.8	2,002.8	2,007.8
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	86.7	96.0	109.5	118.0
Other current assets	8.6	10.4	10.5	10.7
<b>Total assets</b>	<b>2,088.1</b>	<b>2,104.2</b>	<b>2,122.8</b>	<b>2,136.5</b>
ST debt	233.6	233.6	233.6	233.6
Other current liabilities	25.0	37.3	48.0	54.1
LT debt	618.7	618.7	618.7	618.7
Other LT liabilities	52.9	52.9	52.9	52.9
Shareholders' equity	1,157.9	1,161.7	1,169.6	1,177.2
<b>Total liabilities &amp; equity</b>	<b>2,088.1</b>	<b>2,104.2</b>	<b>2,122.8</b>	<b>2,136.5</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	53.5	57.4	58.2	58.2
Pre-tax margin	(34.0)	42.9	45.2	45.4
Net margin	(22.3)	42.2	44.4	44.7
ROA	n.a.	3.9	4.1	4.2
ROE	n.a.	7.1	7.5	7.6
<b>Growth</b>				
Turnover	9.3	0.3	0.9	1.5
EBITDA	5.7	7.6	2.3	1.6
Pre-tax profit	(213.7)	n.a.	6.2	2.1
Net profit	(191.0)	n.a.	6.2	2.1
Net profit (adj.)	56.2	(15.4)	6.2	2.1
EPU	40.5	(15.9)	5.3	1.2
<b>Leverage</b>				
Debt to total capital	42.4	42.3	42.2	42.0
Debt to equity	73.6	73.4	72.9	72.4
Net debt/(cash) to equity	66.1	65.1	63.5	62.4
Interest cover (x)	3.5	4.0	4.5	4.6

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