UOBKayHian

COMPANY UPDATE

Manulife US REIT (MUST SP)

Increased Exposure To High-Growth Tech And Healthcare Sectors

MUST has entered into purchase agreements to acquire three properties in Phoenix, Arizona and Portland, Oregon. The trio of acquisitions reinforces MUST's plans to increase exposure to high-growth tech and healthcare sectors. The DPU-accretive acquisitions would be funded via a private placement and existing loan facilities. Maintain BUY with an attractive yield of 8.1%. Target price: US$0.87 (US$0.84 previously).

WHAT'S NEW

- **Asset acquisition.** Manulife US REIT (MUST) recently announced on 30 Nov 21 that it will acquire three properties in high-growth Sunbelt/magnet states for a total purchase consideration of US$201.6m excluding transaction costs. Two of the properties (Diablo and Park Place) are located in the suburbs of Phoenix (Tempe and Chandler) and one property (Tanasbourne) in Hillsboro, Portland. The assets are located in attractive locations with lower cost of business, large catchment of tech and healthcare companies, close proximity to highly-skilled talent pools and robust population growth. MUST expects the acquisition to be completed by Dec 21. The acquisitions would be DPU accretive to unitholders.

SUMMARY TABLE OF THE THREE PROPERTIES BEING ACQUIRED

	Diablo Technology Park, Tempe, Phoenix	Park Place, Chandler, Phoenix	Tanasbourne Commerce Center, Hillsboro, Portland
Occupancy Rate (%)	85.7	100	100
Land tenure	Freehold	Freehold	Freehold
NLA (sq ft)	354,434	274,700	132,851
Parking Spaces	1,630	1,578	593
Purchase Price (US$m)	61.75	106.0	33.85
Valuation (US$m)	65.0	106.9	34.4
Implied Cap Rate (%)	6.9	5.8	7.0
WALE (by NLA)	4.6 years	7.9 years	4.9 years
Top 3 Tenants	- Smart Embedded Computing - Conduent Commercial - Computershare Loan	- Voya Services - Toyota Motor Credit - Fresenius Management	- Nike - Tokyo Electron - Kaiser Permanente

Source: MUST SP, UOB Kay Hian

- **Enhance portfolio resilience.** The trio of properties has a weighted average occupancy rate of 93.4% and a 5.9-year weighted average lease expiry (WALE). Management expects Diablo's occupancy of 85.7% to improve given its close proximity to highly-skilled talent pools and Tempe's lower costs of doing business. Post-acquisition, MUST's portfolio occupancy would rise to 91.3% (90.9%) and WALE to 5.2 years (5.1 years). The trio has no significant near-term lease expiries with only 2.3% of leases by gross rental income (GRI) expiring in 2023.
- **2.5% built-in rental escalation provides clear organic growth.** All three properties have an average annual escalation of 2.5% built into its leases. This brings average annual escalation for the enlarged portfolio closer to 2.2%. Additionally, the trio is under-rented by 9.3-14.7%. It is likely that we can expect strong rental reversions of about 12.3% when leases expire.

KEY FINANCIALS

Year to 31 Dec (US$m)	2019	2020	2021F	2022F	2023F
Net turnover	178	194	196	219	222
EBITDA	98	104	112	127	129
Operating profit	98	104	112	127	129
Net profit (rep./act.)	48	(43)	(148)	86	87
Net profit (adj.)	62	97	87	90	92
EPU (US$ cent)	4.4	6.2	5.2	5.2	5.2
DPU (US$ cent)	5.9	5.6	5.6	6.1	6.2
PE (x)	15.6	11.1	13.2	13.1	13.1
P/B (x)	0.9	0.9	1.2	1.2	1.2
DPU Yld (%)	8.7	8.2	8.1	8.8	9.0
Net margin (%)	26.7	(22.3)	(75.5)	39.2	39.3
Net debt/(cash) to equity (%)	59.7	66.1	86.0	85.6	86.5
Interest cover (x)	3.8	3.5	4.0	4.4	4.3
ROE (%)	4.1	n.a.	n.a.	8.3	8.5
Consensus DPU (US$ cent)	n.a.	n.a.	5.7	5.8	5.9
UOBKH/Consensus (x)	-	-	0.98	1.04	1.05

Source: MUST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US$0.685
Target Price	US$0.870
Upside	+27.0%
(Previous TP:	*US$0.840)*

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$m):	1,096.0
Market cap (US$m):	1,096.0
3-mth avg daily t'over (US$m):	1.5

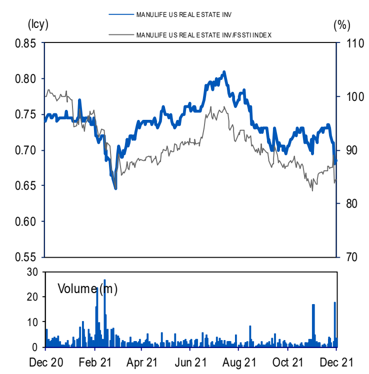
Price Performance (%)

52-week high/low US$0.810/US$0.645

1mth	3mth	6mth	1yr	YTD
(4.2)	(6.2)	(10.5)	(8.7)	(8.1)

Major Shareholders	%
Manulife Financial Corp	9.2
-	-
-	-

PRICE CHART



Source: Bloomberg

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- **High-quality and resilient tenant mix.** The top 10 tenants from the three properties make up 95.5% of NLA and have an average WALE of 6.0 years. These 10 tenants consist of credit-rated/listed companies that are from the tech, finance and healthcare sectors. Post-acquisition, MUST's portfolio would increase its exposure to the tech/healthcare sectors by 34.7% through GRI and 35.2% to growth markets by AUM, making MUST's overall portfolio most resilient and diversified.

STOCK IMPACT

- **Private placement and higher gearing.** To fund for the acquisitions, MUST has completed a private placement at an issue price of US$0.649/new unit, totalling gross proceeds of close to US$100.0m. The total number of units in issue would increase by 154.1m new units, a 9.6% increase overall. MUST will also tap on existing loan facilities for the remaining US107.7m, increasing its pro-forma 1H21 gearing ratio to 43.9% (42.1%) post-acquisition.

- **Yield-accretive.** The acquisition is expected to increase pro-forma 1H21 DPU by 4.4% and slightly decrease 1H21 NAV to US$0.70/unit (US$0.71/unit).

EARNINGS REVISION/RISK

- **We adjust 2021-23 DPU forecast to incorporate the new acquisitions.** We decrease our 2021 DPU by 3.9% due to a larger unit base from the private placement and increase our 2022-23 DPU forecasts by 3.4 and 4.1% respectively due to contributions from the three acquisitions.

VALUATION/RECOMMENDATION

- **Maintain BUY and with a higher target price of US$0.87/unit (US$0.84/unit previously),** based on DDM (required rate of return: 8.0% terminal growth: 1.0%).

SHARE PRICE CATALYST

- Positive newsflow on office leasing activity.

- Return to office in the US.

DIABLO TECHNOLOGY PARK, TEMPE PHOENIX

Source: MUST, UOB Kay Hian

PARK PLACE, CHANDLER, PHOENIX

Source: MUST, UOB Kay Hian

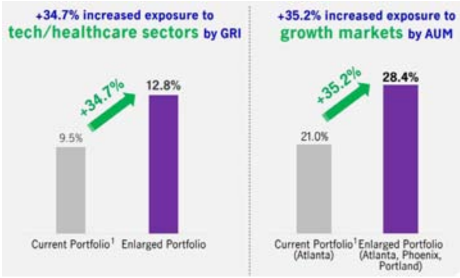
TANASBOURNE COMMERCE CENTRE, HILLSBORO, PORTLAND

Source: MUST, UOB Kay Hian

MUST'S PORTFOLIO GEOGRAPHICAL FOOTPRINT

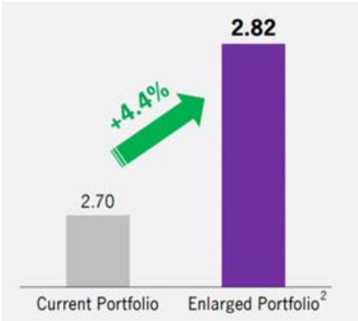
Source: MUST, UOB Kay Hian

INCREASED EXPOSURE TO TECH/HEALTHCARE



Source: MUST, UOB Kay Hian

PRO FORMA DPU (US CENTS) POST ACQUISITION



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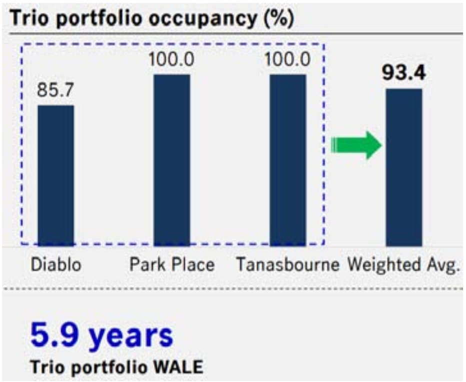
TRIO OCCUPANCY AND WALE



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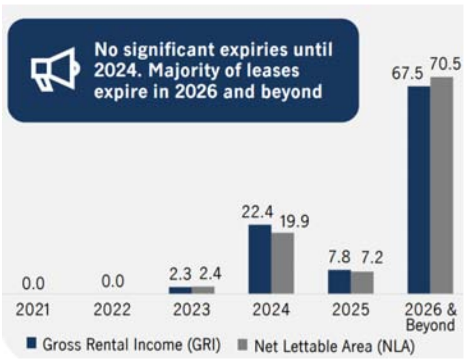
TRIO LEASE EXPIRY



Source: MUST, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US$m)	2020	2021F	2022F	2023F
Net turnover	194.3	195.8	218.5	221.9
EBITDA	104.0	112.4	127.2	129.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	104.0	112.4	127.2	129.4
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)	(29.2)	(30.1)
Pre-tax profit	(66.0)	(150.3)	93.6	94.8
Tax	22.7	2.6	(8.0)	(7.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	(43.3)	(147.8)	85.7	87.2
Net profit (adj.)	97.1	86.6	90.1	91.7

BALANCE SHEET

Year to 31 Dec (US$m)	2020	2021F	2022F	2023F
Fixed assets	1,992.8	2,227.2	2,231.7	2,236.2
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	86.7	73.3	79.2	74.7
Other current assets	8.6	10.4	11.7	11.8
Total assets	2,088.1	2,310.9	2,322.6	2,322.7
ST debt	233.6	233.6	233.6	233.6
Other current liabilities	25.0	266.9	281.1	286.8
LT debt	618.7	726.4	726.4	726.4
Other LT liabilities	52.9	52.9	52.9	52.9
Shareholders' equity	1,157.9	1,031.2	1,028.6	1,023.0
Total liabilities & equity	2,088.1	2,310.9	2,322.6	2,322.7

CASH FLOW

Year to 31 Dec (US$m)	2020	2021F	2022F	2023F
Operating	82.0	130.0	139.1	134.2
Pre-tax profit	(66.0)	(150.3)	93.6	94.8
Tax	22.7	2.6	(8.0)	(7.6)
Deprec. & amort.	(0.7)	(4.5)	(4.5)	(4.5)
Associates	0.0	0.0	0.0	0.0
Working capital changes	(5.4)	5.6	8.5	1.1
Non-cash items	154.1	248.4	20.2	20.3
Other operating cashflows	(22.8)	28.3	29.2	30.1
Investing	(24.0)	(229.3)	0.6	0.6
Capex (growth)	0.0	(207.7)	0.0	0.0
Capex (maintenance)	(24.2)	(22.3)	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.2	0.7	0.6	0.6
Financing	(32.2)	85.9	(133.7)	(139.4)
Distribution to unitholders	(70.7)	(92.9)	(104.0)	(108.6)
Issue of shares	0.0	100.0	0.0	0.0
Loan repayment	39.6	107.7	0.0	0.0
Others/interest paid	(1.0)	(29.0)	(29.8)	(30.7)
Net cash inflow (outflow)	25.9	(13.4)	5.9	(4.5)
Beginning cash & cash equivalent	60.7	86.7	73.3	79.2

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	53.5	57.4	58.2	58.3
Pre-tax margin	(34.0)	(76.8)	42.8	42.7
Net margin	(22.3)	(75.5)	39.2	39.3
ROA	n.a.	n.a.	3.7	3.8
ROE	n.a.	n.a.	8.3	8.5
Growth				
Turnover	9.3	0.8	11.6	1.5
EBITDA	5.7	8.0	13.3	1.7
Pre-tax profit	(213.7)	n.a.	n.a.	1.3
Net profit	(191.0)	n.a.	n.a.	1.8
Net profit (adj.)	56.2	(10.8)	4.0	1.7
EPU	40.5	(15.5)	0.8	(0.3)
Leverage				
Debt to total capital	42.4	48.2	48.3	48.4
Debt to equity	73.6	93.1	93.3	93.8
Net debt/(cash) to equity	66.1	86.0	85.6	86.5
Interest cover (x)	3.5	4.0	4.4	4.3

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