

COMPANY UPDATE

Manulife US REIT (MUST SP)

US Office Recovery Underway Amid Challenging Outlook

For 1Q22, MUST's overall portfolio occupancy dipped slightly to 91.7%. New leases formed 54% of total leases signed while about 68,000sf of leases were executed at +3.9% 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 the same target price of US\$0.80.

WHAT'S NEW

- **1Q22 update.** Manulife US REIT (MUST) provided operating metrics for 1Q22 with no financials given.
- **Lower overall portfolio occupancy.** Overall portfolio occupancy in 1Q22 fell to 91.7% (4Q21: 92.3%) as tenants downsized or gave up space in Peachtree and Exchange. However, Michelson's overall occupancy increased to 89.2% in 1Q22 (4Q21: 87.2%), with passing rents above market rates.
- **Gradually improving physical occupancy.** Across MUST's portfolio, 1Q22 overall physical building occupancy has been on an uptrend and is expected to continue, from 29% in 4Q21 to 34%/32% in Apr/May 22 respectively. As work-from-home becomes a secular trend, MUST could face lower physical occupancy compared with pre-COVID-19 levels. With carpark income historically contributing roughly 6-7% of total annual revenue, improving physical occupancy would help underpin a recovery in carpark income.
- **Steady WALE and strong leasing sentiment.** Improving tenant sentiment was seen as new leases formed 54.0% of leases signed in 1Q22. MUST executed about 68,000sf of leases in 1Q22, with strong positive rental reversion of +3.9%. Weighted average lease expiry (WALE) remained steady at 5.0 years (5.1 years in 4Q21) as 49.4% of leases by NLA are expiring in 2027 and beyond. Total expiring leases for 2022 by NLA softened to 6.2% from 8.0% in 4Q21. Two of MUST's top ten tenants by gross rental income (GRI) have lease expiries in 2023, with one tenant intending to vacate by Dec 23. However, these leases have rents 9.9% below market rates, indicating possible positive rental reversion. Also, management has already started searching for possible tenants to take up the space after 2023, mitigating any loss in rental income.
- **Gearing remains steady.** Gearing levels remained unchanged at 42.8% in 1Q22. With debt headroom of about US\$360m (50% gearing), we reckon MUST may add on acquisitions from emerging industries such as tech and healthcare as their next focus.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	194	185	219	222	222
EBITDA	104	98	118	117	118
Operating profit	104	98	118	117	118
Net profit (rep./act.)	(43)	39	76	75	76
Net profit (adj.)	97	68	81	80	80
EPU (US\$ cent)	6.2	4.2	4.8	4.6	4.5
DPU (US\$ cent)	5.6	5.3	5.6	5.8	6.0
PE (x)	9.7	14.2	12.5	13.1	13.3
P/B (x)	0.8	0.9	0.9	0.9	0.9
DPU Yld (%)	9.4	8.9	9.4	9.7	10.0
Net margin (%)	(22.3)	21.3	34.9	33.9	34.0
Net debt/(cash) to equity (%)	66.1	75.2	79.5	81.4	84.1
Interest cover (x)	3.5	3.4	3.9	3.8	3.8
ROE (%)	n.a.	3.4	6.5	6.4	6.5
Consensus DPU (US\$ cent)	n.a.	n.a.	5.5	5.8	5.9
UOBKH/Consensus (x)	-	-	1.02	1.00	1.02

Source: MUST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.60
Target Price	US\$0.80
Upside	+33.3%

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):	1,764.1
Market cap (US\$m):	1,058.5
Market cap (US\$m):	1,058.5
3-mth avg daily t'over (US\$m):	1.6

Price Performance (%)

52-week high/low US\$0.81/US\$0.600

1mth	3mth	6mth	1yr	YTD
(10.4)	(4.8)	(15.5)	(19.5)	(10.4)

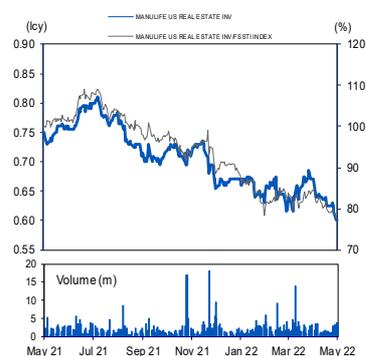
Major Shareholders

Manulife Financial Corp 9.1%

FY21 NAV/Share (US\$) 0.67

FY21 Net Debt/Share (US\$) 0.53

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Cautious economic outlook.** Although there is a challenging global macroeconomic outlook, US unemployment rate continued its decline to 3.6% in 1Q22, near pre-pandemic levels and reaching decade lows. This has spilled over into the US office sector as 1Q22 leasing volumes were up 5.4% qoq while base (+3.0%) and net effective rents (+2.6%) trended upwards qoq. However, as potential tenants become unclear on space requirements due to global uncertainties, 1Q22 subleasing and tenant incentives/free rents increased slightly by 2.6% qoq and 2.5% qoq respectively.

EARNINGS REVISION/RISK

- **None.**

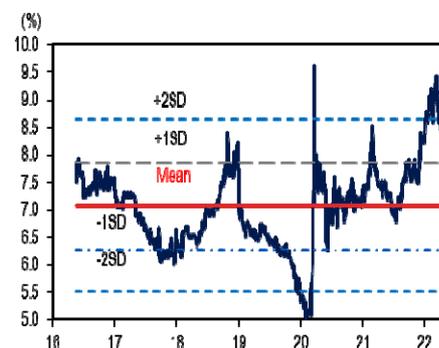
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of US\$0.80**, 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

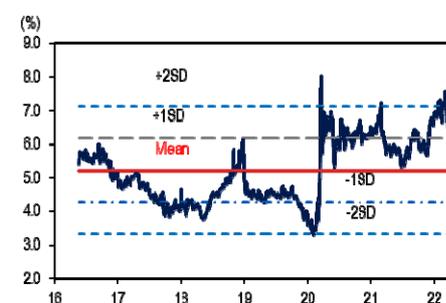
- Better-than-expected rental reversion.
- Return to offices in the US.

YIELD



Source: Bloomberg, UOB Kay Hian

YIELD SPREAD



Source: Bloomberg, UOB Kay Hian

MUST'S OFFICE LOCATIONS

Markets	Gross Asking Rent (US\$)	Net Absorption ('000 sq ft)	Last 12 months rent growth ¹ (%)	Projected 12 months rent growth ² (%)	New Properties Under Construction ('000 sq ft)	Delivery Year
Downtown Los Angeles	42.07	10.2	0.9	3.9	-	-
Irvine, Orange County	33.29	(122.9)	(1.1)	4.2	-	-
Buckhead Atlanta	39.94	(8.8)	0.8	3.9	340.0 ³	2022
Midtown Atlanta	43.40	367.8	1.3	4.3	-	-
Meadowlands3	35.80	0.0	(0.8)	3.5	-	-
Hudson Waterfront3	44.43	0.2	(0.5)	3.5	-	-
Washington, D.C.	58.18	(43.8)	(0.2)	2.7	814.0 ⁴	2022,2024
Fairfax Center	32.73	(9.1)	(0.1)	2.8	-	-
Downtown Sacramento	39.27	(7.3)	1.2	3.6	-	-
Hillsboro, Portland	26.21	7.4	2.7	4.2	-	-
Tempe, Phoenix	25.00	(2.7)	2.2	5.2	471.0 ⁵	2022
Chandler, Phoenix	31.03	(43.1)	2.6	5.1	-	-

Source: All Submarket and Market Data as at Apr 2022 from CoStar Market Analysis & Forecast Reports

(1) Data excludes Hillsboro, Tempe and Chandler markets

(2) All building classes

(3) 28% pre-leased to Novellis

(4) Comprises of Trophy assets which are not comparable to Penn

(5) Comprises of Class A assets which are not comparable to Diablo

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	185.1	218.5	221.9	222.3
EBITDA	98.2	117.9	117.1	117.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	98.2	117.9	117.1	117.6
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)	(29.1)	(30.1)	(31.1)	(31.1)
Pre-tax profit	40.6	83.4	81.7	82.2
Tax	(1.1)	(7.1)	(6.5)	(6.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	39.4	76.3	75.1	75.6
Net profit (adj.)	67.9	80.7	79.5	80.0

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	2,184.4	2,188.8	2,193.2	2,197.6
Other LT assets	5.7	5.7	5.7	5.7
Cash/ST investment	78.6	35.5	23.7	6.3
Other current assets	7.0	8.8	9.0	9.0
Total assets	2,275.6	2,238.8	2,231.5	2,218.5
ST debt	296.6	296.6	296.6	296.6
Other current liabilities	67.1	40.4	46.0	50.4
LT debt	674.7	674.7	674.7	674.7
Other LT liabilities	46.7	46.7	46.7	46.7
Shareholders' equity	1,187.6	1,177.5	1,164.6	1,147.2
Total liabilities & equity	2,275.6	2,238.8	2,231.5	2,218.5

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	90.6	86.4	123.0	122.1
Pre-tax profit	40.6	83.4	81.7	82.2
Tax	(1.1)	(7.1)	(6.5)	(6.6)
Deprec. & amort.	1.9	(4.4)	(4.4)	(4.4)
Associates	0.0	0.0	0.0	0.0
Working capital changes	43.6	(32.9)	1.0	0.0
Non-cash items	41.6	17.3	20.2	19.8
Other operating cashflows	(35.9)	30.1	31.1	31.1
Investing	(230.9)	0.0	0.0	0.0
Capex (growth)	(201.0)	0.0	0.0	0.0
Capex (maintenance)	(30.0)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	132.2	(129.5)	(134.8)	(139.5)
Distribution to unitholders	(120.9)	(99.4)	(103.8)	(108.4)
Issue of shares	100.0	0.0	0.0	0.0
Loan repayment	118.5	0.0	0.0	0.0
Others/interest paid	34.7	(30.1)	(31.1)	(31.1)
Net cash inflow (outflow)	(8.1)	(43.0)	(11.8)	(17.4)
Beginning cash & cash equivalent	86.7	78.6	35.5	23.7
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	78.6	35.5	23.7	6.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.1	53.9	52.8	52.9
Pre-tax margin	21.9	38.2	36.8	37.0
Net margin	21.3	34.9	33.9	34.0
ROA	1.8	3.4	3.4	3.4
ROE	3.4	6.5	6.4	6.5
Growth				
Turnover	(4.7)	18.1	1.5	0.2
EBITDA	(5.6)	20.0	(0.7)	0.5
Pre-tax profit	n.a.	105.7	(2.1)	0.6
Net profit	n.a.	93.7	(1.6)	0.6
Net profit (adj.)	(30.1)	18.8	(1.5)	0.6
EPU	(31.1)	13.0	(4.4)	(1.3)
Leverage				
Debt to total capital	45.0	45.2	45.5	45.8
Debt to equity	81.8	82.5	83.4	84.7
Net debt/(cash) to equity	75.2	79.5	81.4	84.1
Interest cover (x)	3.4	3.9	3.8	3.8

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