

COMPANY RESULTS

Manulife US REIT (MUST SP)

1H22: Slight Miss; Facing Challenging Outlook

1H22 DPU was down 3.3% yoy and slightly below our expectations. MUST had lower rental income from existing properties as overall occupancy fell 1.7ppt, supported by contributions from the new properties. Tenants in existing properties have started downsizing due to a secular shift to hybrid working models. MUST guided for positive rental reversion as expiring rents from vacating tenants are below market rents. Maintain BUY for its attractive yield of 9.0%. Target price: US\$0.74.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H22	1H21	yoy % chg	Comment
Revenue	100.4	90.8	10.6	New contributions from Tanasbourne, Park Place & Diablo.
NPI	57.6	56.1	2.8	
Distributable Income	46.0	43.0	6.9	
DPU (cents)	2.61	2.70	(3.3)	Lower income from existing properties.

Source: MUST, UOB Kay Hian

RESULTS

- **Lower DPU than expected.** Manulife REIT's (MUST) 1H22 DPU was slightly below expectations, falling 3.3% yoy and forming 46.5% of our full-year forecasts. The drop in DPU was largely due to an enlarged unit base from the private placement done in Dec 21.
- **Lower occupancy rates.** Overall portfolio occupancy softened 1.7ppt in 2Q22 to 90.0%, caused by non-renewals and secular downsizing in existing properties (Exchange, Penn and Capitol). Physical occupancy also softened slightly from 34.0%/32.0% in Apr/May 22 to 28.2% as of Jul 22.
- **Robust leasing activity.** MUST executed about 192,000sf of leases in 1H22 (4.1% of NLA) with +1.0% rental reversion, with 124,000sf of leases in 2Q22 (+82.4% qoq, +254.3% yoy). Expiring leases by gross rental income (GRI) for 2022 dropped to 4.8% from 6.2% in 1Q22. Weighted average lease expiry (WALE) remained steady at 5.0 years with 52.6% of leases by NLA expiring in 2027 and beyond.
- **Expect potential positive rental reversion.** MUST has guided for positive single-digit rental reversion moving forward. In Figueroa, management is in negotiation with prospective tenants to take over space vacated by TCW group (second largest tenant by NLA) in Dec 23, with expiring rents 9% below market rents. MUST also renewed about 64,000sf of leases for Quinn Emanuel by around 5.4 years at +2.5% rent reversion from Sep 23 onwards, although about 71,000sf of leases would be given up from Sep 22 onwards as the tenant downsized.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	194	185	205	213	222
EBITDA	104	98	108	110	115
Operating profit	104	98	108	110	115
Net profit (rep./act.)	(43)	39	95	66	71
Net profit (adj.)	97	68	68	70	75
EPU (US\$ cent)	6.2	4.2	4.0	4.0	4.2
DPU (US\$ cent)	5.6	5.3	5.3	5.4	5.6
PE (x)	9.6	13.9	14.7	14.6	13.9
P/B (x)	0.8	0.9	0.9	0.9	0.9
DPU Yld (%)	9.6	9.1	9.0	9.1	9.5
Net margin (%)	(22.3)	21.3	46.5	30.9	31.9
Net debt/(cash) to equity (%)	66.1	75.2	78.4	80.1	82.0
Interest cover (x)	3.5	3.4	3.6	3.4	3.6
ROE (%)	n.a.	3.4	8.0	5.5	6.0
Consensus DPU (US\$ cent)	n.a.	n.a.	5.3	5.5	5.7
UOBKH/Consensus (x)	-	-	1.00	0.98	0.98

Source: MUST, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.59
Target Price	US\$0.74
Upside	+26.0%
(Previous TP:	US\$0.80)

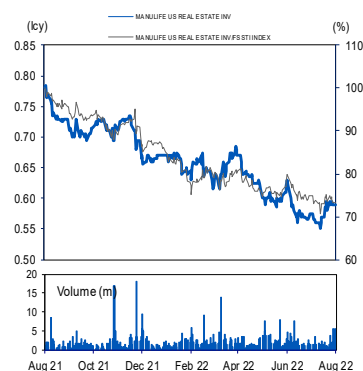
COMPANY DESCRIPTION

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):	1,040.8			
Market cap (US\$m):	1,040.8			
3-mth avg daily t'over (US\$m):	1.4			
Price Performance (%)				
52-week high/low		US\$0.785/US\$0.550		
1mth	3mth	6mth	1yr	YTD
4.4	(5.6)	(7.8)	(24.4)	(11.9)
Major Shareholders				%
Manulife Financial Corp				9.1
-				-
-				-
FY22 NAV/Share (US\$)				0.68
FY22 Net Debt/Share (US\$)				0.53

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llleythan Tan
+65 6590 6624
yirong@uobkayhian.com
Jonathan Koh, CFA
+65 6590 6620
jonathankoh@uobkayhian.com

- **Gearing improved slightly.** Gearing levels improved to 42.4% (1Q22: 42.8%) with 85.7% (1Q22: 86.5%) of borrowings being fixed-rate loans. MUST refinanced all of its 2022 borrowings, improving weighted average debt maturity to 3.3 years (1Q22: 2.3 years). Every 1% increase in interest rate will impact DPU by 0.079 US cents.

STOCK IMPACT

- **Cautious economic outlook.** Facing a challenging global macroeconomic outlook, US GDP declined 0.9% in 2Q22, the second straight quarter of decline. Job employment remains robust with 1.1m jobs added in 2Q22 but is expected to plateau while facing possible cutbacks moving forward. This has spilled over into the US office sector as according to Jones Lang LaSalle (JLL), 2Q22 leasing volumes have started moderating consecutively since 3Q21 while subleasing has risen from 4Q21 as firms reassess space needs/downsize. US base rents have gradually improved but dragged down by elevated tenant incentives.
- **Hybrid working space the new norm.** According to JLL, more companies in the US are shifting to a hybrid working model after the peak of COVID-19, whereby larger tenants are starting to downsize as they reassess their space needs. Facing this secular shift, offices with premium and flexible amenities while being located in great locations are more likely to attract tenants. To take advantage of this trend, MUST has initiated several initiatives such as partnering with best-in-class flex operators and reinvesting its office space in existing properties. This allows MUST's properties to remain competitive and command premium rents. MUST already has ongoing plans to introduce new amenities in Michelson.

EARNINGS REVISION/RISK

- **Decrease our 2022-24 DPU forecasts by about 6%,** after accounting for lower property income, higher interest expense and vacancy rates assumptions.

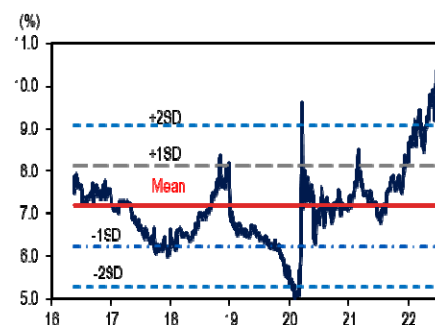
VALUATION/RECOMMENDATION

- **Maintain BUY and with a lower target price of S\$0.74 (previously: S\$0.80),** based on DDM assumptions of 9.0% required rate of return and terminal growth rate of 1.0%. In our view, MUST remains an attractive dividend play with its generous 2022-24 dividend yields of 9.0%, 9.1% and 9.5% respectively. We opine that near-term challenges have already been priced in.

SHARE PRICE CATALYST

- Positive newsflow on office leasing activity.
- Return to offices in the US.

YIELD



Source: Bloomberg, UOB Kay Hian

LEASE EXPIRY PROFILE AS AT 30 JUN 2022 (%)



Source: MUST

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	185.1	204.9	213.5	222.3
EBITDA	98.2	108.4	109.8	115.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	98.2	108.4	109.8	115.4
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)	(29.1)	(30.1)	(32.1)	(32.1)
Pre-tax profit	40.6	105.9	73.3	78.9
Tax	(1.1)	(10.6)	(7.3)	(7.9)
Minorities	0.0	0.0	0.0	0.0
Net profit	39.4	95.3	66.0	71.0
Net profit (adj.)	67.9	67.7	70.4	75.4

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	27.9	16.9	5.5
Other current assets	7.0	35.8	31.8	27.7
Total assets	2,275.6	2,258.1	2,247.5	2,236.4
ST debt	296.6	296.6	296.6	296.6
Other current liabilities	67.1	33.7	35.7	37.1
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	1,203.6	1,190.9	1,178.4
Total liabilities & equity	2,275.6	2,258.1	2,247.5	2,236.4

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	90.6	73.0	117.7	121.9
Pre-tax profit	40.6	105.9	73.3	78.9
Tax	(1.1)	(10.6)	(7.3)	(7.9)
Deprec. & amort.	1.9	(4.4)	(4.4)	(4.4)
Associates	0.0	0.0	0.0	0.0
Working capital changes	43.6	(34.6)	1.6	1.1
Non-cash items	41.6	(13.5)	22.4	22.1
Other operating cashflows	(35.9)	30.1	32.1	32.1
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	(123.6)	(128.7)	(133.3)
Distribution to unitholders	(120.9)	(93.5)	(96.6)	(101.2)
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)	(32.1)	(32.1)
Net cash inflow (outflow)	(8.1)	(50.7)	(11.0)	(11.4)
Beginning cash & cash equivalent	86.7	78.6	27.9	16.9
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	78.6	27.9	16.9	5.5

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.1	52.9	51.4	51.9
Pre-tax margin	21.9	51.7	34.3	35.5
Net margin	21.3	46.5	30.9	31.9
ROA	1.8	4.2	2.9	3.2
ROE	3.4	8.0	5.5	6.0
Growth				
Turnover	(4.7)	10.7	4.2	4.1
EBITDA	(5.6)	10.4	1.2	5.1
Pre-tax profit	n.a.	161.2	(30.8)	7.6
Net profit	n.a.	141.9	(30.8)	7.6
Net profit (adj.)	(30.1)	(0.3)	3.9	7.2
EPU	(31.1)	(5.3)	0.8	5.0
Leverage				
Debt to total capital	45.0	44.7	44.9	45.2
Debt to equity	81.8	80.7	81.6	82.4
Net debt/(cash) to equity	75.2	78.4	80.1	82.0

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