

### COMPANY UPDATE

## Manulife US REIT (MUST SP)

Breathing Space For Orderly Deleveraging

The success of MUST's recapitalisation and deleveraging plan hinges on progress of divestments. Interest rates are expected to decline in 2H24, which make the environment more conducive for divestments. The first step towards revival is to obtain waiver from lenders. We forecast distributable income of US\$46.6m and fully-diluted DPU of 1.2 US cents for 2026, the first year MUST resumes distribution. Valuation is attractive with 2026 distribution yield at 15.1% and P/NAV at 0.44x. Maintain BUY. Target price: US\$0.13.

### RESULTS

- **Recapitalisation plan to revive MUST.** Manulife US REIT (MUST) has announced its Recapitalisation plan.
  - MUST intends to repay debt of US\$285.0m owed to lenders, funded by: a) sale of Park Place at Chandler, Arizona to sponsor Manulife Insurance for US\$98.7m, b) six-year unsecured Sponsor-Lender Loan of US\$137.0m with interest rate at 7.25% and exit premium of 21.16% (effective interest rate is 10% per annum), and c) MUST's own cash holdings of US\$50.0m.
  - MUST intends to raise at least US\$328.7m (excluding divestment of Park Place) through asset dispositions. The divestments will strengthen MUST's balance sheet and fund essential capital expenditure.
- **Balance sheet strengthened with lower gearing.** Implementation of recapitalisation plan, including tranche 1 of divestments, is expected to reduce MUST's gross borrowings from US\$1.02b to US\$654.5m, with aggregate leverage declining from 56.5% to 49.4% (exclude positive impact from retention of income). Lenders will waive MUST's past and existing financial covenant breaches and extend all loan maturities by one year.
- **Sufficient runway for orderly divestments.** Post-recapitalisation, there will be no loans due in 2024 with the next loan tranche maturing in May 25. The weighted average debt maturity will increase from 2.3 years to 3.7 years. There is substantial runway of 19 months (1.6 years) until Jun 25 for MUST to execute divestments of its existing properties.
- **Disposition mandate reduces administrative time to execute divestments.** Management has classified assets into three tranches by order of priority for divestments based on occupancy risk, requirements for capital expenditure and expected total return. The four assets under tranche 1, which is the key focus of the planned divestments, are Centerpointe and Penn in Washington DC, Diablo in Tempe and Figueroa in Los Angeles. The assets must be sold at or above 90% of independent valuation.
- **Short-term pain for long-term gain.** In addition to the recapitalisation plan, MUST has halted half-yearly distributions till 31 Dec 25, unless Early Reinstatement Conditions are achieved. MUST will not be paying distributions in 2023, 2024 and 2025.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F <sup>^</sup>
Net turnover	185	203	192	174	136
EBITDA	98	102	95	87	65
Operating profit	98	102	95	87	65
Net profit (rep./act.)	39	(130)	(426)	(24)	26
Net profit (adj.)	68	86	74	44	38
EPU (US\$ cent)	4.2	4.9	4.0	2.3	1.3
DPU (US\$ cent)	5.3	4.8	0.0	0.0	(0.0)
PE (x)	2.1	1.9	2.3	3.9	11.6*
P/B (x)	0.1	0.2	0.3	0.3	0.4*
DPU Yld (%)	58.6	52.2	0.0	0.0	0.0
Net margin (%)	21.3	(64.0)	(222.0)	(14.0)	19.5
Net debt/(cash) to equity (%)	75.2	89.8	144.8	131.7	52.4
Interest cover (x)	3.4	3.0	2.4	2.0	2.4
ROE (%)	3.4	n.a.	n.a.	n.a.	4.1
Consensus DPU (US\$ cent)	n.a.	n.a.	1.9	2.7	2.7
UOBKH/Consensus (x)	-	-	0.00	0.00	n.m.

<sup>^</sup> Fully diluted for 992:1,000 rights issue @ US\$0.07.

\* Based on theoretical ex-rights unit price of US\$0.08054.

Source: Manulife US REIT, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	US\$0.091
Target Price	US\$0.13
Upside	+42.9%
(Previous TP)	US\$0.18)

### 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):	161.7
Market cap (US\$m):	161.7
3-mth avg daily t'over (US\$m):	1.1

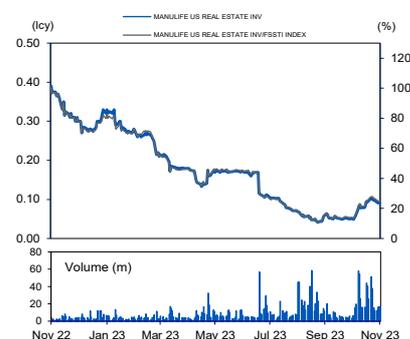
### Price Performance (%)

52-week high/low	US\$0.39/US\$0.041			
<b>1mth</b>	<b>3mth</b>	<b>1mth</b>	<b>3mth</b>	<b>1mth</b>
82.0	26.4	(47.1)	(75.7)	(69.7)

### Major Shareholders

	%
Manulife Financial Corp	9.1
FY23 NAV/Share (US\$)	0.32
FY23 Net Debt/Share (US\$)	0.46

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **All three resolutions are inter-conditional.** MUST is scheduled to convene an EGM on 14 Dec 23 (Thursday) at 2:30pm. The three resolutions are inter-conditional: a) proposed divestment of Park Place, b) Sponsor-Lender Loan, and c) disposition mandate. All three resolutions must be approved by unitholders for lenders to grant a waiver, which paves the way for MUST to execute its recapitalisation plan.

### STOCK IMPACT

- **Deleveraging in progress.** We expect MUST's aggregate leverage to recede to 44.1% at end-25 after factoring in the following.

- Fair value of MUST's investment properties is expected to drop 25% or US\$500m (1H23: US\$280m, 2H23: US\$220m) in 2023 and 16% or US\$69m in 2024.
- Interest rates are expected to decline in 2H24, which make the environment more conducive for divestments. We expect MUST to divest Centerpointe and Penn in Washington DC and Diablo in Tempe for US\$236m in 1Q25.
- We estimate that MUST retains income of US\$115m in 2023, 2024 and 2025, which reduces aggregate leverage by 9.3ppt.

- **Factoring in equity fund raising.** We have hypothetically assumed that MUST embarks on a 992:1,000 rights issue with issue price at US\$0.07 to raise US\$132m and reduce aggregate leverage to 38.0% by end-25. The hypothetical rights issue serves to equalise leverage across the different US office REITs and makes 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.

- **New policy reduces dilution for unitholders.** MUST has changed its policy to pay 100% of managers' base fees in cash (previous policy: 100% in new units) starting 2H23.

### EARNINGS REVISION/RISK

- We forecast fully diluted DPU of 1.2 US cents for 2026, the first year that MUST resumes distribution.

### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US\$0.13 is based on DDM (cost of equity: 10.5%, terminal growth: 0.5%) fully diluted for 992:1,000 rights issue at issue price of US\$0.07 per unit but adjusted for rights entitlements.

### SHARE PRICE CATALYST

- Deleveraging through recapitalisation plan.
- Successful execution of planned divestments.

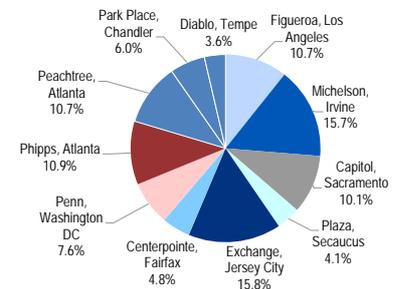
### KEY OPERATING METRICS

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

\* hoh % change for DPU

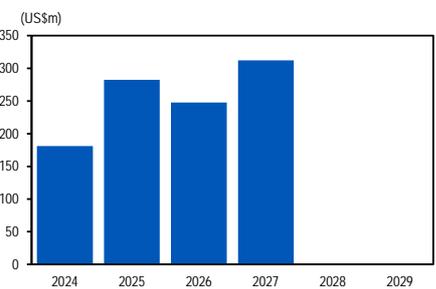
Source: MUST

### PORTFOLIO VALUATION BY PROPERTY (JUN 23)



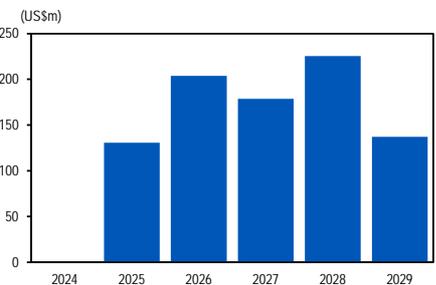
Source: MUST

### DEBT MATURITY PROFILE (SEP 23)



Source: MUST

### DEBT MATURITY profile (POST DEBT REPAYMENT FUNDED BY DIVESTMENT OF PARK PLACE AND SPONSOR-LENDER LOAN)



Source: MUST

### PRIORITISE ASSETS FOR DIVESTMENT

<b>Tranche 1 assets</b> (28.4% of Portfolio <sup>(1)</sup> )	Centerpointe Diablo Figueroa Penn
<b>Tranche 2 assets</b> (43.3% of Portfolio <sup>(1)</sup> )	Capitol Exchange Peachtree Plaza
<b>Tranche 3 assets</b> (28.3% of Portfolio <sup>(1)</sup> )	Michelson Phipps

Source: MUST

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F <sup>^</sup>
Net turnover	202.6	191.8	173.8	135.8
EBITDA	101.7	95.2	86.6	65.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	101.7	95.2	86.6	65.0
Net interest income/(expense)	(33.9)	(40.5)	(42.4)	(27.3)
Pre-tax profit	(147.8)	(444.9)	(24.4)	26.5
Tax	18.1	19.1	0.0	0.0
Net profit	(129.7)	(425.8)	(24.4)	26.5
Net profit (adj.)	85.9	73.8	44.2	37.7

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F <sup>^</sup>
Fixed assets	1,947.0	1,443.8	1,306.5	1,088.9
Other LT assets	47.7	47.7	47.7	47.7
Cash/ST investment	112.9	84.0	85.6	85.7
Other current assets	8.3	8.2	7.8	6.8
Total assets	2,115.9	1,583.7	1,447.6	1,229.1
ST debt	144.6	144.6	144.6	144.6
Other current liabilities	39.8	37.2	33.7	26.5
LT debt	884.4	800.0	692.0	323.0
Other LT liabilities	26.8	7.5	7.2	6.5
Shareholders' equity	1,020.3	594.4	570.0	728.5
Total liabilities & equity	2,115.9	1,583.7	1,447.6	1,229.1

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F <sup>^</sup>
Operating	92.0	52.0	40.9	30.7
Pre-tax profit	(147.8)	(444.9)	(24.4)	26.5
Tax	(0.1)	0.0	0.0	0.0
Working capital changes	1.2	(2.7)	(3.3)	(7.0)
Non-cash items	229.6	502.7	68.6	11.2
Other operating cashflows	9.0	(3.0)	0.0	0.0
Investing	(25.4)	3.5	68.7	206.3
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(25.4)	(30.0)	(30.0)	(30.0)
Proceeds from sale of assets	0.0	33.5	98.7	236.3
Financing	(32.4)	(84.4)	(108.0)	(237.0)
Distribution to unitholders	(58.0)	(0.0)	(0.0)	0.0
Issue of shares	0.0	0.0	0.0	132.0
Proceeds from borrowings	16.8	(84.4)	(108.0)	(369.0)
Others/interest paid	8.8	0.0	0.0	0.0
Net cash inflow (outflow)	34.2	(28.8)	1.6	0.1
Beginning cash & cash equivalent	78.6	112.9	84.0	85.6
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	112.8	84.0	85.6	85.7

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F <sup>^</sup>
<b>Profitability</b>				
EBITDA margin	50.2	49.6	49.8	47.8
Pre-tax margin	(73.0)	(231.9)	(14.0)	19.5
Net margin	(64.0)	(222.0)	(14.0)	19.5
ROA	n.a.	n.a.	n.a.	2.0
ROE	n.a.	n.a.	n.a.	4.1
<b>Growth</b>				
Turnover	9.4	(5.3)	(9.4)	(21.9)
EBITDA	3.5	(6.4)	(9.0)	(25.0)
Pre-tax profit	(464.5)	n.a.	n.a.	n.a.
Net profit	(429.1)	n.a.	n.a.	n.a.
Net profit (adj.)	26.4	(14.0)	(40.1)	(14.7)
EPU	14.7	(17.1)	(41.7)	(43.8)
<b>Leverage</b>				
Debt to total capital	50.2	61.4	59.5	39.1
Debt to equity	100.8	158.9	146.8	64.2
Net debt/(cash) to equity	89.8	144.8	131.7	52.4
Interest cover (x)	3.0	2.4	2.0	2.4

<sup>^</sup> Fully diluted for 992:1,000 rights issue @ US\$0.07.

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