

COMPANY RESULTS

Manulife US REIT (MUST SP)

2H23: Pulling Multiple Levers To Deleverage

There is a pick-up in leasing activities with MUST securing two new tenants in 4Q23: an insurance firm at Capitol and a public administration agency at Figueroa. In 1Q24, existing tenant Hyundai Capital expanded at Michelson, while The Children's Place has returned to Plaza. MUST will focus on asset dispositions and a series of bite-size EFRs to lower aggregate leverage below the target of 45%. We estimate 2026 distribution yield at 47.3% and P/NAV at 0.18x. Maintain BUY. Target price: US\$0.155.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	yoy % Chg	Remarks
Gross Revenue	108.5	+6.2	Portfolio occupancy stable at 84.4%.
Net Property Income (NPI)	59.2	+6.7	Boosted by termination fees from Exchange (US\$9.0m) and Plaza (US\$4.0m).
Distributable Income	36.3	-13.3	Plaza (US\$4.0m).
DPU (US cents)	0.0	n.m.	Retained distributable income of US\$36.3m.

Source: MUST, UOB Kay Hian

RESULTS

- Manulife US REIT (MUST) reported distributable income of US\$36.4m for 2H23 (-13.3% yoy), which is above our expectations.
- Termination fees boosted revenue and NPI.** Gross revenue and NPI grew 6.2% and 6.7% yoy respectively in 2H23, boosted mainly by termination fees from Exchange in Jersey City (US\$9.0m) and Plaza in Secaucus (US\$4.0m), which was partially offset by negative impact from: a) lower rental and recoveries income due to higher vacancies, b) higher property expenses, and c) divestment of Tanasbourne in Hillsboro during Apr 23 and Park Place in Chandler during Dec 23. Interest expense increased 29.1% yoy.
- Pick-up and positive momentum in leasing activities.** MUST signed 104,000sf of leases (2023: 740,000sf) and clocked positive rental reversions of 1.0% in 4Q23 (2023: 8.2%). It secured two new tenants, an insurance firm at Capitol in Sacramento for 14,000sf and a public administration agency at Figueroa in Los Angeles for 42,000sf. The average WALE for leases signed in 4Q23 was 8.9 years. Portfolio WALE has lengthened by 6.4% yoy to 5.0 years. Renewals made up 76.8% of leasing in 2023.
- New and expansion leases offset non-renewal by TCW Group.** Portfolio occupancy was relatively stable at 84.4% as of Dec 23. Hyundai Capital expanded by 31,000sf with a new five-year lease at Michelson in Irvine. The Children's Place has returned to Plaza in Secaucus with a new 13-year lease for 120,000sf. These two new leases would offset known non-renewal by TCW Group for 188,835sf of space at Figueroa in Los Angeles.
- Cost of debt stable after loan restructuring.** Average interest rate was 4.15% as of Dec 23 (effective interest rate at 4.55% if we include exit premium for sponsor-lender loan of US\$137m), compared to 4.38% in Sep 23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	203	208	171	164	167
EBITDA	102	104	86	84	85
Operating profit	102	104	86	84	85
Net profit (rep./act.)	(130)	(380)	9	43	45
Net profit (adj.)	86	75	44	43	45
EPU (US\$ cent)	4.9	4.1	2.3	2.2	2.2
DPU (US\$ cent)	4.8	0.0	0.0	(0.0)	2.8
PE (x)	1.2	1.4	2.6	2.7	2.7
P/B (x)	0.1	0.2	0.2	0.2	0.2
DPU Yld (%)	80.5	0.0	0.0	0.0	47.3
Net margin (%)	(64.0)	(182.7)	5.0	26.1	26.9
Net debt/(cash) to equity (%)	89.8	130.3	111.0	102.1	110.4
Interest cover (x)	3.0	2.3	2.2	2.1	2.1
ROE (%)	n.a.	n.a.	1.4	6.7	6.9
Consensus DPU (US\$ cent)	n.a.	n.a.	2.5	2.1	4.5
UOBKH/Consensus (x)	-	-	0.00	n.m.	0.62

Source: Manulife US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.059
Target Price	US\$0.155
Upside	+162.7%
(Previous TP)	US\$0.14)

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 10 freehold office properties in Arizona, California, Georgia, New Jersey, Virginia and Washington DC with NLA of 5.0m sf and valued at US\$1.4b as of Dec 23.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MUST SP
Shares issued (m):	1,776.6
Market cap (US\$m):	104.8
Market cap (US\$m):	104.8
3-mth avg daily t'over (US\$m):	1.5

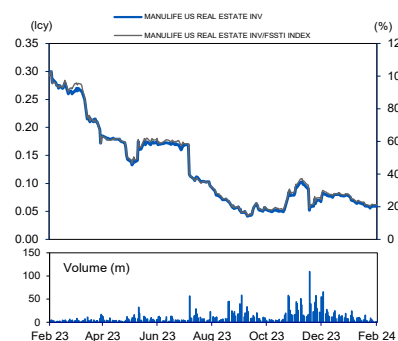
Price Performance (%)

52-week high/low	US\$0.39/US\$0.041				
1mth	3mth	1mth	3mth	1mth	
(25.3)	(24.4)	(42.7)	(80.3)	(26.3)	

Major Shareholders

Major Shareholders	%
Manulife Financial Corp	9.1
FY24 NAV/Share (US\$)	0.32
FY24 Net Debt/Share (US\$)	0.35

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
 +65 6590 6620
 jonathankoh@uobkayhian.com

- **Withholding tax minimised.** MUST incurred withholding tax of US\$1.2m in 2H23, which is equivalent to a low withholding tax rate of 1.6%, due to halting distribution allocatable to unitholders who failed to submit a valid US tax form. Management worked tirelessly to get most unitholders to submit valid W-8BEN forms.
- **Tail-end of revaluation losses.** MUST previously announced that portfolio valuation declined 8.0% or US\$123.1m to US\$1,411.8m in Dec 23 due to higher average discount rates (+51bp) and terminal capitalisation rates (+17bp). Four of its properties, namely Figueroa in Los Angeles, California (-20.1% or US\$35.0m), Plaza in Secaucus, New Jersey (-13.6% or US\$9.1m), Penn in Washington DC (-12.9% or US\$16.0m) and Diablo in Tempe, Arizona (-11.3% or US\$6.6m), accounted for 54.2% of the decline.
- **Gearing stays elevated.** MUST completed the divestment of Park Place in Chandler, Arizona to its sponsor for US\$98.7m in Dec 23. Aggregate leverage has increased 2.3ppt qoq to 58.3% as of Dec 23. NAV per unit dropped 17.5% hoh to US\$0.33.

STOCK IMPACT

- **Focus on lowering leverage below target of 45%.** Management will focus on asset dispositions and using the proceeds to further reduce debt and fund capex. MUST could resume distribution after Early Reinstatement Conditions are met, which include reducing aggregate leverage to below 45%. It will be using its cash holdings to pay down an additional US\$50m of debt by 31 Mar 24. Thus, pro forma aggregate would be further reduced to 56.9% by Mar 24.
- **MUST will explore various avenues to deleverage:**
 - Divestment of tranche 1 properties.** Management targets to conclude asset disposals of about US\$100m by 2Q/3Q this year. Selling prices of its tranche 1 properties (Figueroa, Penn, Diablo and Centerpoint) could be as much as 25% discount to valuation in Dec 23. We assume that MUST divest Figueroa in Los Angeles at US\$104m, a 25% discount to latest valuation of US\$139m, in Jun 24.
 - Management will consider providing seller-financing,** which delivers several advantages: i) selling price of properties could be boosted by premium of 10-30%, ii) loans with loan-to-value ratio at 40-50% provide attractive return at interest rate of about 8%, and iii) attract more bids and hasten the pace to transact.
 - Series of bite-sized EFRs.** MUST could pursue a series of small-scale equity fund raising (EFR). Technically, EFR through private placement is feasible if issue price is set at a premium to prevailing market price.
- **Leaving the worst behind us.** Portfolio valuation has dropped 33.5% cumulatively over the past two years (Dec 22: -10.9%, Jun 23: -14.6% and Dec 23: -8.0%). Direct cap rates for its office properties have correspondingly expanded by 142bp. In management's view, the bulk of revaluation losses have already been recognised given that interest rates have peaked.

EARNINGS REVISION/RISK

- We expect MUST to retain distributable income of US\$54.7m in 2024 and US\$54.6m in 2025 (halted distributions till 31 Dec 25). We forecast 2026 DPU of 2.8 US cents.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US\$0.155 is based on DDM (cost of equity: 13.0%, terminal growth: 0.0%). We imposed a punitive cost of equity of 13.0% (previous: 10.0%).

SHARE PRICE CATALYST

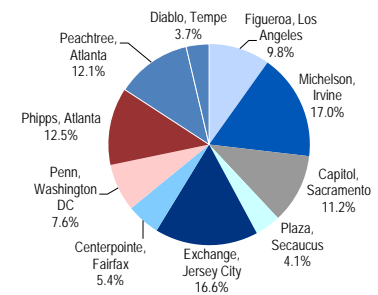
- Deleveraging through asset dispositions and a series of bite-sized EFRs.

KEY OPERATING METRICS

Key Metrics	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % chg	qoq % chg*
DPU (US cents)	2.14	n.a.	0.00	n.a.	0.00	-100.0%	n.a.
Occupancy	88.0%	86.1%	85.1%	84.7%	84.4%	-3.6ppt	-0.3ppt
Aggregate Leverage	48.8%	49.5%	56.7%	56.0%	58.3%	9.5ppt	2.3ppt
Average Cost of Debt	3.74%	3.98%	4.10%	4.38%	4.15%	0.5ppt	-0.3ppt
% Borrowing in Fixed Rates	77.3%	80.2%	80.2%	69.2%	91.3%	14ppt	22.1ppt
WALE by NLA (years)	4.7	5.0	7.6	5.1	8.9	4.2yrs	3.8yrs
Average Debt Maturity (years)	2.4	2.7	2.5	2.3	3.3	0.9yrs	1yrs
Rental Reversions	0.7%	5.0%	-2.5%	24.2%	1.0%	0.3ppt	-23.2ppt

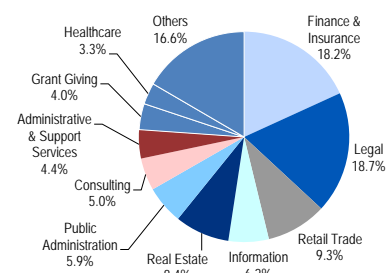
Source: MUST * hoh % change for DPU

PORTFOLIO VALUATION BY PROPERTY



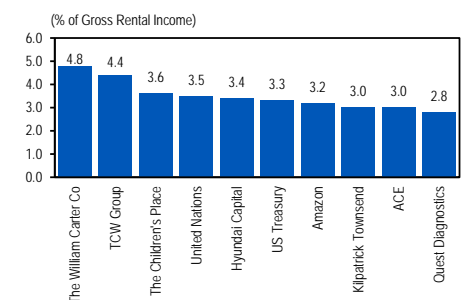
Source: MUST

TRADE SECTOR BY GRI



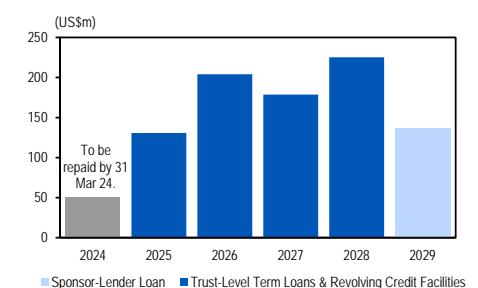
Source: MUST

TOP 10 TENANTS



Source: MUST

DEBT MATURITY PROFILE



Source: MUST

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	208.0	171.3	163.7	166.6
EBITDA	103.5	85.7	83.6	85.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	103.5	85.7	83.6	85.1
Net interest income/(expense)	(45.4)	(39.8)	(39.4)	(40.3)
Pre-tax profit	(397.0)	10.9	44.2	44.9
Tax	17.0	(2.3)	(1.5)	0.0
Net profit	(380.0)	8.6	42.7	44.9
Net profit (adj.)	75.2	43.6	42.7	44.9

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,411.8	1,302.8	1,332.8	1,362.8
Other LT assets	30.7	30.7	30.7	30.7
Cash/ST investment	127.1	81.8	83.2	81.9
Other current assets	18.6	14.2	13.8	14.0
Total assets	1,588.3	1,429.4	1,460.5	1,489.4
ST debt	49.9	49.9	49.9	49.9
Other current liabilities	49.0	36.0	34.5	35.1
LT debt	870.4	717.0	707.0	747.0
Other LT liabilities	10.4	9.3	9.3	9.5
Shareholders' equity	608.6	617.2	659.9	647.9
Total liabilities & equity	1,588.3	1,429.4	1,460.5	1,489.4

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	76.8	34.1	41.5	45.5
Pre-tax profit	(397.0)	10.9	44.2	44.9
Tax	(0.1)	0.0	0.0	0.0
Working capital changes	2.9	(8.8)	(1.3)	0.5
Non-cash items	461.4	40.1	5.1	5.2
Other operating cashflows	9.6	(8.1)	(6.5)	(5.1)
Investing	86.0	74.0	(30.0)	(30.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(44.5)	(30.0)	(30.0)	(30.0)
Proceeds from sale of assets	130.4	104.0	0.0	0.0
Financing	(171.6)	(153.5)	(10.0)	(16.9)
Distribution to unitholders	(38.0)	(0.0)	0.0	(56.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(107.0)	(153.4)	(10.0)	40.0
Others/interest paid	(26.6)	0.0	0.0	0.0
Net cash inflow (outflow)	(8.8)	(45.4)	1.5	(1.4)
Beginning cash & cash equivalent	112.9	127.1	81.8	83.2
Changes due to forex impact	22.5	0.0	0.0	0.0
Ending cash & cash equivalent	126.5	81.8	83.2	81.9

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	49.8	50.1	51.1	51.1
Pre-tax margin	(190.8)	6.4	27.0	26.9
Net margin	(182.7)	5.0	26.1	26.9
ROA	n.a.	0.6	3.0	3.0
ROE	n.a.	1.4	6.7	6.9
Growth				
Turnover	2.7	(17.7)	(4.4)	1.8
EBITDA	1.8	(17.2)	(2.5)	1.8
Pre-tax profit	n.a.	n.a.	305.8	1.6
Net profit	n.a.	n.a.	397.0	5.1
Net profit (adj.)	(12.5)	(42.0)	(2.1)	5.1
EPU	(15.5)	(44.1)	(5.7)	1.6
Leverage				
Debt to total capital	60.2	55.4	53.4	55.2
Debt to equity	151.2	124.3	114.7	123.0
Net debt/(cash) to equity	130.3	111.0	102.1	110.4
Interest cover (x)	2.3	2.2	2.1	2.1

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W