

6 August 2024

Property | REITS

## Manulife US REIT (MUST SP)

## Trading Buy (Maintained)

### Focusing On Right Dispositions And Deleveraging

Target Price (Return): USD0.12 (+72%)  
 Price (Market Cap): USD0.07 (USD124m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (USD/USD) 0.36m/m

- **Maintain TRADING BUY and TP of USD0.12, 72% upside.** Manulife US REIT's operational performance (1H) was in line, with a glimmer of a sign that market conditions are stabilising. US office leasing volumes are starting to point to a pick-up, with some normalisation in return-to-office trends. Key catalysts remain the execution of its right dispositions, and preserving the long-term value of remaining assets – which the new management team seems to be positively working towards.
- **Disposition plan on track, with three assets on the market.** It has not shared the names of these assets due to the sensitive nature of the transactions, but has kept its target of USD100m in asset divestments by the year-end. A key consideration for disposition will be the need for incremental capital to be spent on the asset vs potential returns. MUST is willing to selling assets at a discounted price if necessary. There has been a noticeable increase in purchasers' interest for its assets, from both institutional and high net worth investors. Financing conditions are starting to ease slightly, with an uptick in office market investment activity seen during the last quarter.
- **Portfolio occupancy rate remained stable QoQ at 78.4% (1Q:78.7%).** About 76% of the ~428k sqf in leases signed in 1H came from renewals with Amazon – MUST's fifth largest tenant (3.4% of income) – extending its lease by 3+ years. Demand came from the tech, retail, finance and healthcare sectors. Rent reversion for the leases was at -10.6% - we believe this was dragged down by the Amazon lease extension. The REIT's leasing pipeline remains healthy, at 1.4m sqf (~80% of this are at the proposals stage). Management expects the easing of the labour market to result in a higher return-to-office rate, which should boost its leasing momentum.
- **1H24 same store revenue growth was down 8.1% YoY,** due mainly to: i) The exit of a key tenant, TCW, at the start of the year, and ii) downsizing at The Children's Place. NPI margins, however, came in below expectations on higher leasing commissions and higher insurance premiums. Around 80% of MUST's debt is hedged, and its new policy is to keep 50-80% of debt hedged on the expectation of interest rate cuts. Aggregate leverage stands at 56.3% (1Q: 56.7%), with an interest cover of 2.2x.
- **No significant changes to portfolio value for 1H** based on management's review of valuation assumptions done at Dec 2023.
- **Our TP is pegged to 0.35x FY24F BV.** We cut NPI margin assumptions for FY24 and 25F on back of higher opex and tenant incentives resulting in 12% and 11% lower available distributable income, and expect no distribution payments until FY26. Our TP has a 0% ESG premium/discount imputed, as MUST's ESG score is in line with the country median.

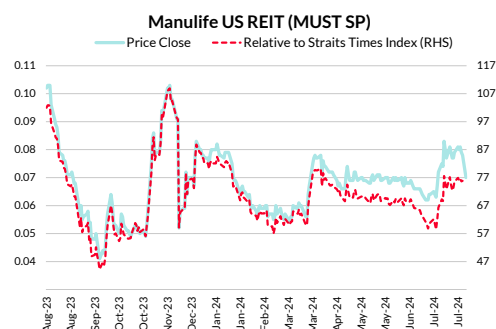
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.5)	9.4	1.4	20.7	(32.7)
Relative	(16.9)	10.3	(1.3)	12.8	(35.4)
52-wk Price low/high (USD)				0.04	-0.10



Source: Bloomberg

#### Overall ESG Score: 3.1 (out of 4)

#### E: EXCELLENT

MUST targets to have a 100% green-certified portfolio by 2030 (currently 93% of portfolio by NLA are green-certified). It also expects to record a 38% reduction in GHG emissions by 2035 (vs the base year of 2018) and 80% reduction by 2050. Similarly, it plans to reduce energy intensity by 33% (from 2018) and achieve a 49% reduction by 2050.

#### S: GOOD

It has a high overall tenant satisfaction rating in the 2022 tenant satisfaction survey. 100% of directors and 100% of employees have undergone ESG-related training. The manager organises a lot of community activities to support the elderly and underprivileged community, as well as social enterprises.

#### G: GOOD

The REIT has been transparent on earnings and operating metrics disclosures, and has a majority of independent directors in the board. However recent developments concerning the potential sale of a sponsor stake in the REIT manager, as well as a lack of timely support and a costly debt restructuring package has raised several concerns regarding governance, among minority unitholders.

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	203	208	170	176	189
Net property income (USDm)	113	115	86	92	99
Reported net profit (USDm)	(130)	(380)	38	68	49
Total distributable income (USDm)	87.9	74.3	45.1	44.9	47.3
DPS (USD)	0.05	na	na	na	0.02
DPS growth (%)	(11.5)	(100.0)	0.0	0.0	0.0
P/B (x)	0.12	0.20	0.20	0.18	0.18
Dividend Yield (%)	67.5	na	na	na	33.1
Return on average equity (%)	(11.7)	(46.7)	6.1	9.9	6.8
Return on average assets (%)	(5.9)	(20.5)	2.5	4.3	3.1

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (USD)	(0.08)	(0.21)	0.02	0.04	0.03
Property	EPS (USD)	(0.08)	(0.21)	0.02	0.04	0.03
<b>Manulife US REIT</b>	DPS (USD)	0.05	-	-	-	0.02
MUST SP	BVPS (USD)	0.58	0.34	0.35	0.39	0.39
Trading Buy	Return on average equity (%)	(11.7)	(46.7)	6.1	9.9	6.8
	Weighted avg adjusted shares (m)	1,685.06	1,771.91	1,805.43	1,834.12	1,834.12
<b>Valuation basis</b>						
DDM	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	na	na	3.30	1.90	2.63
	P/E (x)	na	na	3.30	1.90	2.63
	P/B (x)	0.1	0.2	0.2	0.2	0.2
	FCF Yield (%)	55.9	193.8	95.7	39.2	47.4
	Dividend Yield (%)	67.5	-	-	-	33.1
	EV/EBITDA (x)	8.92	7.91	9.13	9.02	8.76
	EV/EBIT (x)	9.31	8.54	10.10	9.45	8.95
	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	203	208	170	176	189
	EBITDA	106	112	87	88	92
	Depreciation and amortisation	(4)	(8)	(8)	(4)	(2)
	Operating profit	102	104	78	84	90
	Net interest	(34)	(45)	(40)	(42)	(44)
	Pre-tax profit	(148)	(397)	39	70	51
	Taxation	18	17	(1)	(2)	(2)
	Recurring net profit	(130)	(380)	38	68	49
	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	1	3	(16)	(17)	(17)
	Cash flow from operations	91	154	78	78	82
	Capex	(25)	86	43	(27)	(21)
	Cash flow from investing activities	(25)	87	44	(26)	(20)
	Dividends paid	(89)	(60)	0	0	(43)
	Cash flow from financing activities	(184)	(267)	(73)	6	(30)
	Cash at beginning of period	79	113	127	112	127
	Net change in cash	(118)	(26)	50	58	32
	Ending balance cash	(39)	87	177	171	160
	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	113	127	112	127	114
	Tangible fixed assets	1,947	1,412	1,369	1,424	1,450
	Total investments	48	31	31	31	31
	Total assets	2,116	1,588	1,518	1,587	1,600
	Short-term debt	145	50	50	50	50
	Total long-term debt	884	870	770	770	775
	Total liabilities	1,096	980	871	873	879
	Shareholders' equity	1,020	609	647	714	721
	Total equity	1,020	609	647	714	721
	Net debt	916	793	708	693	712
	Total liabilities & equity	2,116	1,588	1,518	1,587	1,600
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	9.5	2.7	(18.3)	3.9	7.2
	Recurrent EPS growth (%)	(410.4)	178.6	0.0	73.4	(27.8)
	Operating EBITDA margin (%)	52.3	53.8	51.1	49.7	48.8
	Net profit margin (%)	(64.0)	(182.7)	22.6	38.3	25.8
	Dividend payout ratio (%)	(64.4)	0.0	0.0	0.0	87.2
	Capex/sales (%)	12.5	(41.3)	(25.1)	15.5	11.3
	Interest cover (x)	3.00	2.25	1.91	1.94	1.99

Source: Company data, RHB

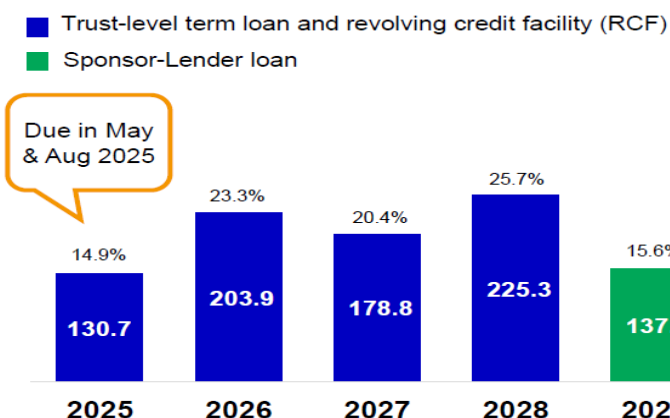
Figure 1: Portfolio overview

	Figueroa	Michelson	Peachtree	Plaza	Exchange	Penn	Phipps	Centerpointe	Capitol	Diablo
Location	Los Angeles	Irvine	Atlanta	Secaucus	Jersey City	Washington, D.C.	Atlanta	Virginia	Sacramento	Tempe
Property Type	Class A	Trophy	Class A	Class A	Class A	Class A	Trophy	Class A	Class A	Class B
Completion Year	1991	2007	1991	1985	1988	1964	2010	1987/1989	1992	1980 - 1998
Last Refurbishment	2019	-	2015	2016	2020	2018	-	2018	2016	-
Property Value <sup>(1)</sup> (US\$m)	139.0	240.0	171.0	58.0	234.0	108.0	176.0	75.8	158.0	52.0
Occupancy (%)	53.5	83.3	79.0	82.2	75.9	90.0	78.9	75.1	89.9	98.2
NLA (sq ft)	718,204	535,003	560,444	468,049	741,541	278,063	477,268	421,552	501,308	355,385
WALE by NLA (years)	4.0	4.7	5.2	7.5	4.4	2.6	8.0	3.1	4.8	1.9
Land Tenure	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold
No. of Tenants	22	18	22	6	22	7	10	16	40	8

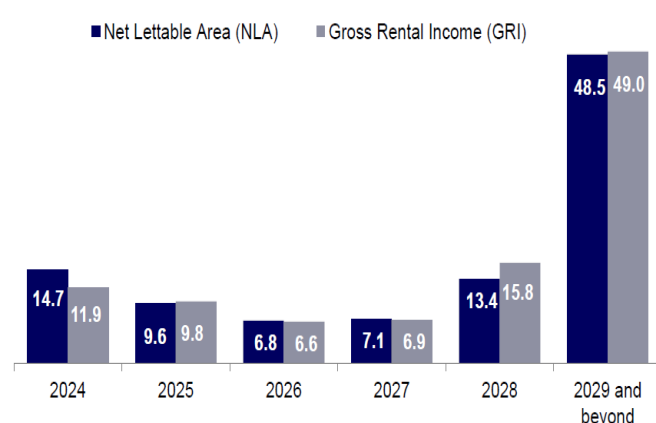
Source: Company data

Figure 2: Debt maturity profile

Figure 3: Lease expiry profile (%)

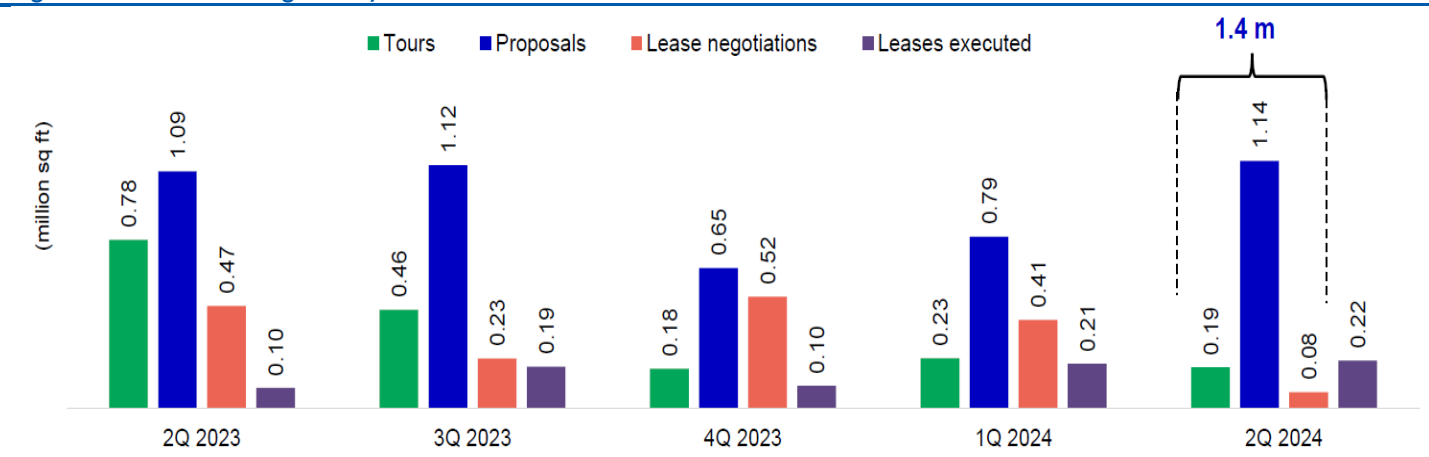


Source: Company data



Source: Company data

Figure 4: Portfolio leasing activity



Source: Company data

## Emissions And ESG

### Trend analysis

Total Scope 1 and 2 emissions declined 5% YoY while energy intensity dropped 3% YoY in 2023. Compared to the base year 2018, energy consumption increased 31.8% while energy intensity decreased by 30%.

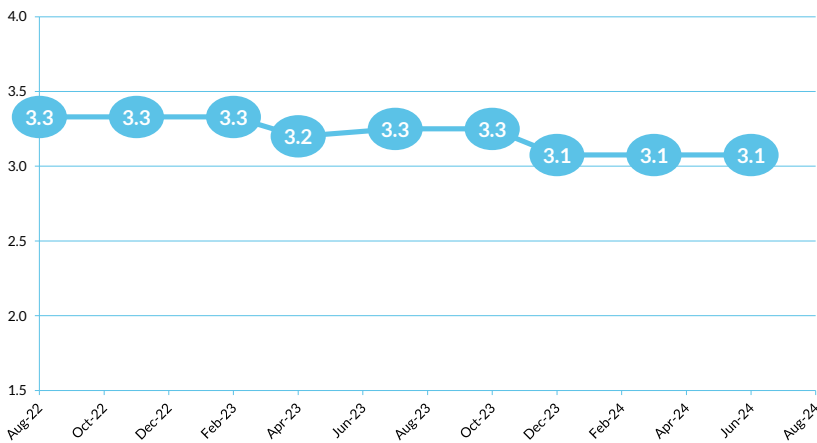
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,626	2,005	2,044
Scope 2	18,047	19,924	18,652
Scope 3	na	na	na
Total emissions	19,673	21,929	20,696

Source: Company data, RHB

## Latest ESG-Related Developments

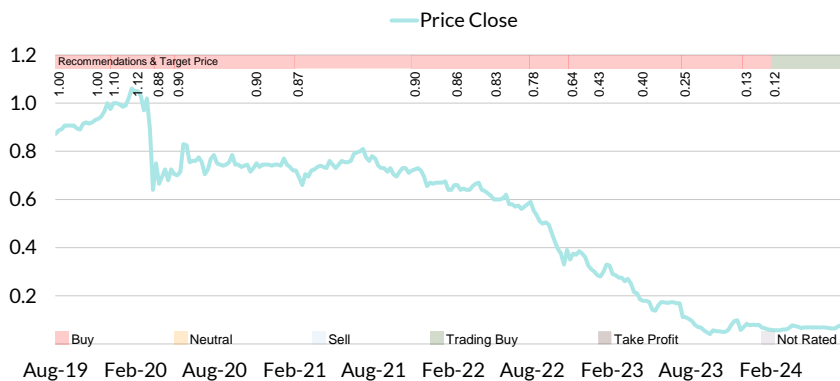
- MUST maintained a high 5-star rating in the GRESB 2023 Real Estate Assessment.
- It also obtained a new USD 105m sustainability-linked loan.
- In 2023, renewable energy accounted for about 15% of MUST's total energy consumption.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-09	Trading Buy	0.12	0.06
2023-12-06	Buy	0.13	0.07
2023-07-19	Buy	0.25	0.12
2023-04-12	Buy	0.40	0.18
2023-02-09	Buy	0.43	0.30
2023-01-02	Buy	0.43	0.30
2022-11-02	Buy	0.64	0.36
2022-08-04	Buy	0.78	0.60
2022-05-10	Buy	0.83	0.60
2022-02-10	Buy	0.86	0.65
2021-12-01	Buy	0.90	0.68
2021-11-04	Buy	0.90	0.70
2021-02-09	Buy	0.87	0.72
2020-11-05	Buy	0.90	0.74
2020-05-10	Buy	0.90	0.71

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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