

1 October 2024

Property | REITS

Manulife US REIT (MUST SP)

Neutral (from Trading Buy)

Divestment Of Capitol; Cut To NEUTRAL

Target Price (Return): USD0.12 (-4%)
 Price (Market Cap): USD0.124 (USD220m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (USD/USD) 0.91m/m

- **Cut to NEUTRAL from Trading Buy, unchanged USD0.12 TP implies 4% downside.** Manulife US REIT's divestment price of Capitol was below expectations, but the sale will lend much-needed liquidity and raises the odds of a successful restructuring. US office conditions are slowly but steadily improving both on the leasing and financing fronts, but with MUST's share price rebounding c.94% (over the last three months), near-term positives are mostly priced in. Potential upside may come if further divestments are at closer to book value, while the US economy faltering would be a key risk.
- **Divestment aimed at generating liquidity over pricing.** Capitol, located at 400 Capitol Mall, Sacramento, will be divested to a local property player for USD117m, in an all-cash transaction. The asset was purchased for USD199m (Sep 2019), and was valued at USD158m as at Dec 2023 and USD118m as at 1 Sep 2024. The transaction reflects discounts of 41%, 26% and 1% to the purchase price and the latest two valuations. Capitol is currently part of MUST's Tranche 2 stable of assets in its portfolio vs Tranche 1 (Figure 1), which are identified as more challenging operational assets or markets. Management, however, noted that the divestment was done after taking into account all factors – in particular, the lack of debt financing and institutional buyer pool. Moving ahead, it remains open to all possible options to build up further liquidity for the REIT to meet its target of USD329m in cumulative asset disposals by mid-2025, as per the master restructuring agreement the REIT manager signed with lenders in Nov 2023. In light of the stabilising market conditions, we expect commercial market transaction liquidity to improve and management's focus to shift more towards asset value maximisation – with asset selling prices being much closer to or possibly above valuations in the future.
- **Proceeds to be used to repay FY25 debt of USD131m**, with the remainder coming from internal cash. The repayment is expected to result in ~42bps in savings of weighted average interest costs to 4.16% pa (vs 4.58% as at 1H24). With this, it will have no debt repayments until 2026, thereby providing a longer runway for the REIT. *Pro forma* NAV (1H) after the completion of this transaction will be at USD0.31, and the transaction will result in a DPU (1H) dilution of 6.4%. MUST's aggregate leverage will be lowered to 54.2% post sale and debt repayment, from 56.3%.
- **We have adjusted FY25-26 distributable income by -14% and -11%**, after factoring in asset dispositions by the end of the year. Our TP is pegged to 0.35x FY24F book value, and has a parity ESG premium/discount imputed, as MUST's ESG score is in line with the country median.

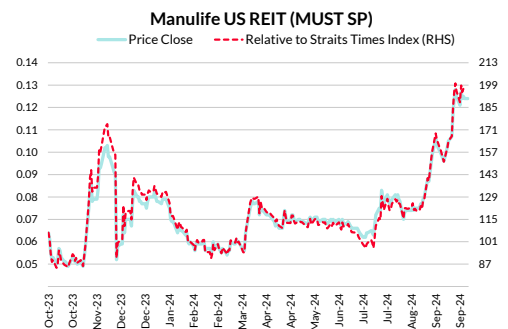
Analyst

Vijay Natarajan
 +65 6320 0825
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	55.0	25.3	93.8	61.0	117.5
Relative	44.7	21.5	86.6	50.2	106.4
52-wk Price low/high (USD)				0.05	-0.13



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

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

S: GOOD

It had 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 REIT manager also organises community activities supporting the elderly and less privileged, as well as social enterprises

G: GOOD

The REIT has been transparent in earnings and operating metrics disclosures, and the majority of boardmembers are independent directors. However recent developments concerning the potential sale of a sponsor stake in the REIT manager, as well as a lack of timely support and costly debt restructuring package has raised several governance concerns 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	156	168
Net property income (USDm)	113	115	86	80	86
Reported net profit (USDm)	(130)	(380)	(5)	61	43
Total distributable income (USDm)	87.9	74.3	44.0	37.9	42.2
DPS (USD)	0.05	na	na	na	0.02
DPS growth (%)	(11.5)	(100.0)	0.0	0.0	0.0
P/B (x)	0.21	0.36	0.38	0.34	0.34
Dividend Yield (%)	38.1	na	na	na	16.7
Return on average equity (%)	(11.7)	(46.7)	(0.9)	9.6	6.5
Return on average assets (%)	(5.9)	(20.5)	(0.3)	4.1	2.9

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (USD)	(0.08)	(0.21)	(0.00)	0.03	0.02
Property	EPS (USD)	(0.08)	(0.21)	(0.00)	0.03	0.02
Manulife US REIT	DPS (USD)	0.05	-	-	-	0.02
MUST SP	BVPS (USD)	0.58	0.34	0.33	0.36	0.36
Neutral	Return on average equity (%)	(11.7)	(46.7)	(0.9)	9.6	6.5
	Weighted avg adjusted shares (m)	1,685.06	1,771.91	1,805.43	1,834.12	1,834.12
Valuation basis						
DDM	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	na	na	na	3.75	5.24
	P/E (x)	na	na	na	3.75	5.24
	P/B (x)	0.2	0.4	0.4	0.3	0.3
	FCF Yield (%)	31.6	109.4	34.2	65.9	22.1
	Dividend Yield (%)	38.1	-	-	-	16.7
	EV/EBITDA (x)	9.78	8.76	10.75	10.88	10.59
	EV/EBIT (x)	10.20	9.47	11.89	11.48	10.86
Key drivers						
i. Stabilisation and recovery in the US office market;						
ii. Further asset sale and equity injections;						
iii. Trading at distressed valuations.						
Key risks						
i. Continued decline in office space demand in gateway cities;						
ii. Unexpected changes in the tax-efficient structure; and						
iii. Challenges on bank refinancing						
Company Profile						
Manulife US REIT is the first pure-play US office REIT listed in Asia. It is a Singapore REIT established principally to invest, directly or indirectly, in a portfolio of income-producing office real estate in key markets in the US, as well as in real estate-related assets.						
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	203	208	170	156	168
	EBITDA	106	112	87	76	80
	Depreciation and amortisation	(4)	(8)	(8)	(4)	(2)
	Operating profit	102	104	79	72	78
	Net interest	(34)	(45)	(42)	(37)	(37)
	Pre-tax profit	(148)	(397)	(5)	63	45
	Taxation	18	17	0	(2)	(2)
	Recurring net profit	(130)	(380)	(5)	61	43
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	1	3	(16)	(16)	(17)
	Cash flow from operations	91	154	79	66	70
	Capex	(25)	86	(2)	84	(20)
	Cash flow from investing activities	(25)	87	(1)	85	(18)
	Dividends paid	(89)	(60)	0	0	(38)
	Cash flow from financing activities	(184)	(267)	(32)	(93)	(25)
	Cash at beginning of period	79	113	127	106	125
	Net change in cash	(118)	(26)	46	58	26
	Ending balance cash	(39)	87	173	164	151
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	113	127	106	125	113
	Tangible fixed assets	1,947	1,412	1,372	1,316	1,339
	Total investments	48	31	31	31	31
	Total assets	2,116	1,588	1,514	1,476	1,488
	Short-term debt	145	50	50	50	50
	Total long-term debt	884	870	810	710	715
	Total liabilities	1,096	980	911	812	819
	Shareholders' equity	1,020	609	603	664	669
	Total equity	1,020	609	603	664	669
	Net debt	916	793	754	635	653
	Total liabilities & equity	2,116	1,588	1,514	1,476	1,488
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	9.5	2.7	(18.3)	(8.0)	7.4
	Recurrent EPS growth (%)	(410.4)	178.6	(98.7)	0.0	(28.4)
	Operating EBITDA margin (%)	52.3	53.8	51.2	48.9	47.8
	Net profit margin (%)	(64.0)	(182.7)	(3.0)	38.7	25.8
	Dividend payout ratio (%)	(64.4)	0.0	0.0	0.0	87.6
	Capex/sales (%)	12.5	(41.3)	1.4	(53.4)	11.8
	Interest cover (x)	3.00	2.25	1.83	1.87	2.04

Source: Company data, RHB

Figure 1: Classification of MUST's assets by tranche (Tranche 1 being the more challenging) as of Dec 2023

Property, Location	Valuation				Direct Cap Rates		
	31 Dec 2023 ⁽²⁾ (US\$m)	30 Jun 2023 ⁽²⁾ (US\$m)	Change (%)	Change by Tranche ⁽⁶⁾	31 Dec 23 (US\$ per sq ft)	31 Dec 2023 (%)	30 Jun 2023 (%)
Figueroa, Los Angeles	139.0	174.0	-20.1%	Tranche 1 (-14.0%)	194.4	8.00	7.25
Penn, Washington, D.C.	108.0	124.0	-12.9%		388.4	7.25	5.75
Diablo, Tempe	52.0	58.6	-11.3%		146.3	7.00	6.75
Centerpointe, Washington, D.C. ⁽³⁾	75.8	79.0	-4.1%		180.0	8.25	8.50
Plaza, New Jersey ⁽⁴⁾	58.0	67.1	-13.6%	Tranche 2 (-6.6%)	124.3	7.00	7.25
Exchange, New Jersey ⁽⁴⁾	234.0	258.0	-9.3%		317.2	7.75	7.00
Capitol, Sacramento	158.0	165.0	-4.2%		314.5	7.75	7.75
Peachtree, Atlanta	171.0	175.0	-2.3%		305.8	7.75	7.75
Michelson, Irvine	240.0	256.0	-6.3%	Tranche 3 (-4.2%)	448.6	7.25	7.00
Phipps, Atlanta	176.0	178.2 ⁽⁵⁾	-1.2%		369.9	6.50	6.50
Total/ Weighted Average	1,411.8	1,534.9	-8.0%		279.8	7.46	7.11

(1) Source: National Council of Real Estate Investment Fiduciaries (NCREIF), NCREIF Property Index. Based on more than 1,740 office properties worth over US\$189 billion. Each property's market value is determined by real estate appraisal methodology, consistently applied.
 (2) All valuations by JLL Valuation & Advisory Services, LLC except Diablo's 31 Dec 2023 valuation which was by Colliers International Valuation & Advisory Services, LLC.
 (3) Centerpointe is located in Fairfax Center, a submarket within Fairfax County, Virginia, in the Washington, D.C. metro area.
 (4) Plaza and Exchange are located in Secaucus and Jersey City respectively, within New Jersey.
 (5) Average of valuations by JLL Valuation & Advisory Services, LLC and Colliers International Valuation & Advisory Services, LLC
 (6) Refer to slide 8 of the [Extraordinary General Meeting Presentation](#) for details on the asset tranches.

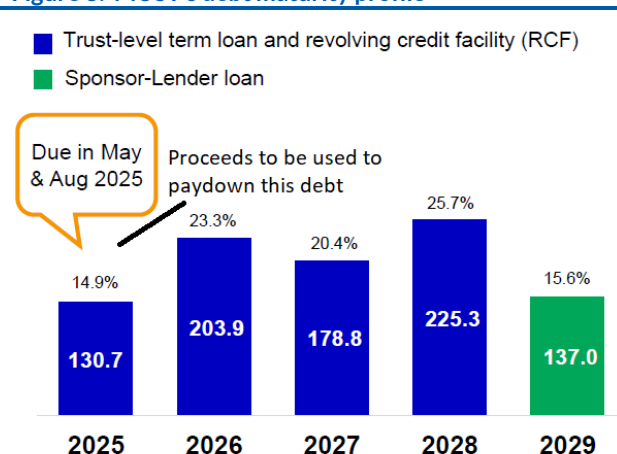
Source: Company data

Figure 2: Capitol NPI fell 19% YoY in 1H24

NPI by property	1H 2024 (US\$ m)	1H 2023 (US\$ m)	Variance (US\$ m)	Variance (%)
Centerpointe	2.9	4.8	(1.9)	(40)
Diablo	3.3	2.9	0.4	14
Figueroa	0.7	4.5	(3.8)	(85)
Penn	4.3	4.4	(0.1)	(3)
Tranche 1 (Subtotal)	11.2	16.7	(5.5)	(33)
Capitol	5.3	6.6	(1.3)	(19)
Exchange	6.5	8.0	(1.5)	(18)
Peachtree	4.1	4.8	(0.6)	(13)
Plaza	3.6	3.4	0.2	5
Tranche 2 (Subtotal)	19.5	22.8	(3.2)	(14)
Michelson	6.9	6.7	0.2	3
Phipps	5.2	5.3	(0.1)	(1)
Tranche 3 (Subtotal)	12.1	11.9	0.1	1
Same store Portfolio Total	42.8	51.4	(8.6)	(17)

Source: Company data

Figure 3: MUST's debt maturity profile



Source: Company data

Emissions And ESG

Trend analysis

MUST's total Scope 1 and 2 emissions declined 5% YoY while its energy intensity dipped by 3% YoY in 2023. Compared to the base year (2018), its energy consumption increased 31.8% while energy intensity decreased by 30%.

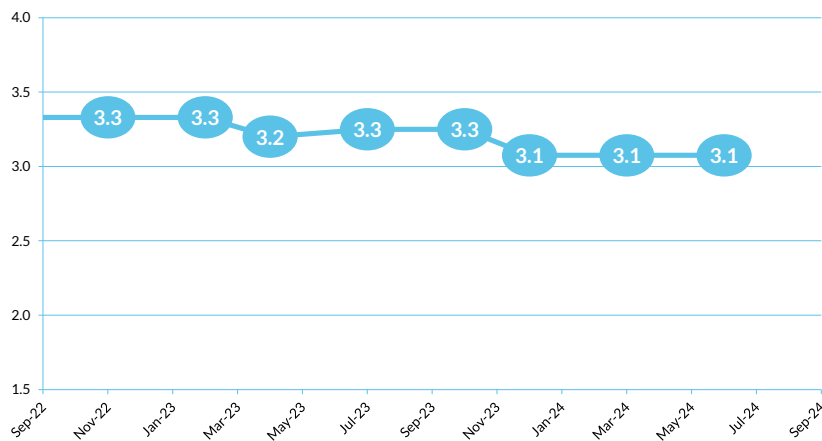
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,626	2,005	2,044
Scope 2	18,047	19,924	18,652
Scope 3	na	na	na
Total emissions	19,673	21,929	20,696

Source: Company data, RHB

Latest ESG-Related Developments

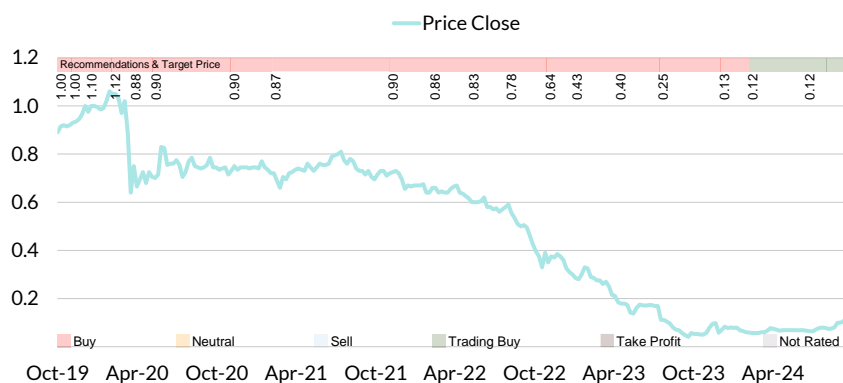
- MUST maintained a high 5-Star rating in the GRESB 2023 Real Estate Assessment.
- It has obtained a new USD105m sustainability-linked loan.
- In 2023, renewable energy accounted for about 15% of the REIT's total energy consumption.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-05	Trading Buy	0.12	0.07
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470