

COMPANY UPDATE

Mapletree Commercial Trust (MCT SP)

MCT-MNACT Merger Under Active Scrutiny

Investors are overly worried about Festival Walk. Hong Kong's retail sales and restaurant receipts picked up in 2H21 and will be boosted by the reopening of border with Mainland China. There are many precedents and the land lease for Festival Walk is likely to be extended by 50 years upon expiry on 30 Jun 47. MCT's merger with MNACT, if completed, is accretive to pro forma 1HFY22 DPU by 7.5% (scrip) to 8.9% (scrip and cash). Maintain BUY. Target price: S\$2.48.

WHAT'S NEW

- Festival Walk a dominant mall in Kowloon.** A lot of the controversies surrounding the proposed merger between Mapletree Commercial Trust (MCT) and Mapletree North Asia Trust (MNACT) lie in the pessimism over outlook for Festival Walk. The property comprises a seven-storey retail mall and a four-storey office tower. It is linked to the Kowloon Tong MRT station, which is an interchange station for the East Rail Line that takes passengers to New Territories and the Shenzhen border. It is in close proximity to two renowned universities, City University of Hong Kong and Hong Kong Baptist University. Thus, shopper traffic was high at 41.3m in FY19.
- Revival at Festival Walk after three horrible years.** Hong Kong's economy has weathered street protests in 2019 and the COVID-19 pandemic in 2020 and 2021. We believe Festival Walk has started to turnaround after two consecutive years of negative rental reversion (FY20: +8%, FY21: -21% and 9MFY22: -32%).
 - Domestic consumption has started to normalise.** Hong Kong has chalked up 11 consecutive months of yoy growth in retail sales since Feb 21 with pick-up aided by economic recovery and the government's HK\$36b electronic consumption voucher scheme. Retail sales increased 6.2% yoy in Dec 21. The recovery in restaurant receipts was even more impressive at 29.1% yoy.
 - Imminent reopening of border with Mainland China.** Cross-border travel between Hong Kong has resumed in a small way through the Come2HK scheme for visitors from Mainland China (initially restricted to just the Guangdong Province) and Macau, which commenced in Sep 21 with a daily quota of 2,000. Travellers do not need to undergo quarantine in Hong Kong but have to serve two weeks of quarantine when they return to Mainland China.

The reopening of border with Mainland China on a quarantine-free basis is expected to commence with a small pilot programme and the daily quota was initially set at 3,000. The reopening is expected to commence once the Omicron variant outbreak in neighbouring Guangdong Province has subsided. The 10 land checkpoints are expected to be fully opened and the daily quota substantially expanded by Jun 22.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	483	479	488	535	543
EBITDA	341	337	338	377	382
Operating profit	340	337	337	376	382
Net profit (rep./act.)	546	69	306	309	315
Net profit (adj.)	263	261	264	309	315
EPU (S\$ cent)	8.5	7.9	8.0	9.3	9.4
DPU (S\$ cent)	8.0	9.5	9.2	10.0	10.2
PE (x)	21.5	23.1	22.9	19.6	19.3
P/B (x)	1.0	1.1	1.1	1.1	1.1
DPU Yld (%)	4.4	5.2	5.0	5.5	5.6
Net margin (%)	113.2	14.3	62.7	57.9	58.1
Net debt/(cash) to equity (%)	50.8	49.7	51.2	51.6	52.1
Interest cover (x)	4.4	4.4	4.6	5.6	5.7
ROE (%)	10.5	1.2	5.4	5.4	5.6
Consensus DPU (S\$ cent)	n.a.	n.a.	9.3	9.9	10.1
UOBKH/Consensus (x)	-	-	0.99	1.01	1.01

Source: Mapletree Commercial Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.82
Target Price	S\$2.48
Upside	+36.3%

COMPANY DESCRIPTION

MCT is a Singapore-focused REIT that invests in income-producing real estate used for office and/or retail purposes. Its diversified portfolio comprises VivoCity, MBC, mTower, Mapletree Anson and MLHF.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MCT SP
Shares issued (m):	3,323.5
Market cap (S\$m):	6,048.8
Market cap (US\$m):	4,500.6
3-mth avg daily t'over (US\$m):	23.0

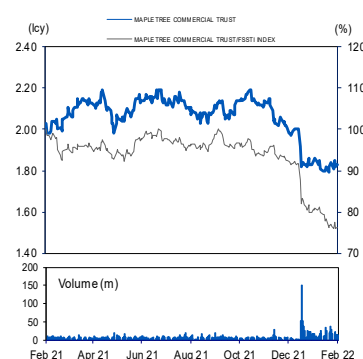
Price Performance (%)

52-week high/low	S\$2.19/S\$1.79			
1mth	3mth	6mth	1yr	YTD
(0.5)	(14.2)	(13.7)	(10.3)	(9.0)

Major Shareholders

Temasek Hldgs	33.9
FY22 NAV/Share (S\$)	1.71
FY22 Net Debt/Share (S\$)	0.88

PRICE CHART



Source: Bloomberg

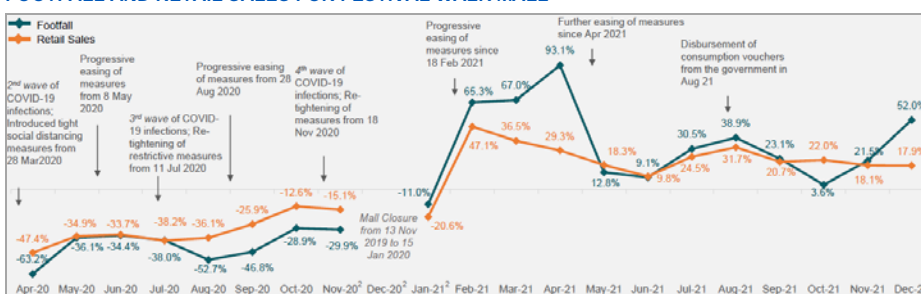
ANALYST(S)

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

c) **Land lease to be extended by 50 years upon expiry in 2047.** Articles 120-123 of Basic Law provide the legal basis for renewal of land leases in Hong Kong. Based on a policy statement announced in Jul 97, new leases of land would be granted a term of 50 years subject to payment of annual land rent equivalent to 3% of the annual rent value of the property. There are many precedents for extension of land leases, the most notable being the extension of land lease for Pok Fu Lam Gardens by 50 years until 2056 in mid-06. Under the current land lease extension policy, leasees need to apply for “conditions of regrant” two years before the expiry of land leases.

Many investors are unduly worried that Festival Walk has only 25 years left on its land use right expiring on 30 Jun 47. We understand valuers usually value properties in Hong Kong as freehold properties given that land leases are renewable upon expiry.

FOOTFALL AND RETAIL SALES FOR FESTIVAL WALK MALL



Source: MNACT

STOCK IMPACT

- **Heads I win – Opportune timing to acquire Festival Walk.** Many investors have an overly pessimistic view on the outlook for Festival Walk. In the near term, Festival Walk has to weather Hong Kong's stringent zero-tolerance policy to control COVID-19. However, the imminent reopening of border with Mainland China would bring reprieve as Mainland visitors accounted for about 25.3% of retail sales in Hong Kong before the COVID-19 pandemic. Like many other properties in Hong Kong, land lease for Festival Walk is likely to be extended for 50 years upon expiry on 30 Jun 47.
- **Tails you lose – MNACT unitholders may vote against the merger.** There is a new air of activism in the Singapore stock market. Proxy advisors Institutional Shareholder Services and Glass Lewis have questioned the deal process and unfavourable offer and have advised unitholders to vote against the merger between ESR REIT and ARA LOGOS Logistics Trust. Similarly, activist fund manager Quarz Capital has also complained about the unattractive offer from MCT, which undervalues MNACT at a discount to NAV per unit of S\$1.225. If the deal is aborted, MCT's unit price could recover back above S\$2.00.
- **The test of fire.** MCT and MNACT would hold their EGMs in mid-April.

EARNINGS REVISION/RISK

- We maintain our existing DPU forecast for MCT on a standalone basis.

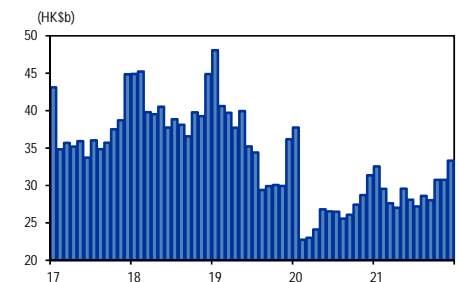
VALUATION/RECOMMENDATION

- **MCT has underperformed.** Unit price for MCT has corrected 9% since the proposed merger between MCT and MNACT was announced on 31 Dec 21. Unit price for MNACT has dropped by a smaller 1.8%. On a relative basis, MCT has underperformed by 5.5%, while MNACT has outperformed by 1.7% relative to the FTSE all-share S-REIT index.
- **Maintain BUY.** Our target price of S\$2.48 is based on DDM (cost of equity: 5.75%, terminal growth: 1.8%).

SHARE PRICE CATALYST

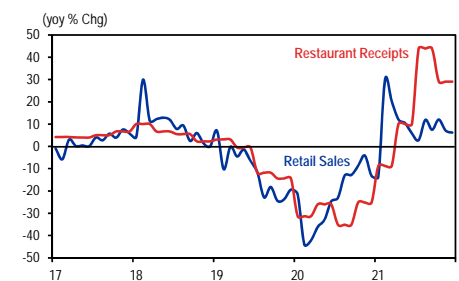
- DPU and NAV accretion from the merger with MNACT.
- MCT has five properties located in the HarbourFront area, which accounted for 91.5% of its AUM in aggregate. It will benefit immensely from the development of the Greater Southern Waterfront and rejuvenation of Sentosa Island and Pulau Brani.

RETAIL SALES VALUE – HONG KONG



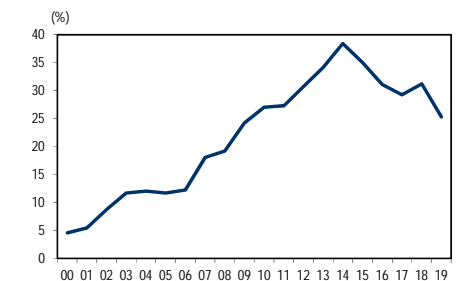
Source: CEIC

RETAIL SALES AND RESTAURANT RECEIPTS, YOY % CHG



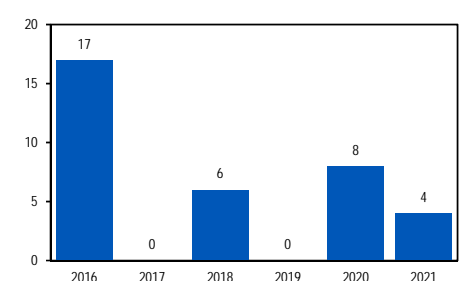
Source: CEIC

MAINLAND VISITORS' SPENDING ON SHOPPING AS % OF TOTAL RETAIL SALES IN HONG KONG



Source: CEIC, UOB Kay Hian

PRECEDENTS OF LAND LEASE EXTENSION IN HONG KONG



Source: Legislative Council of Hong Kong

PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Net turnover	479.0	488.2	534.9	542.7
EBITDA	337.4	337.5	376.5	382.4
Deprec. & amort.	0.1	0.1	0.1	0.1
EBIT	337.3	337.4	376.4	382.3
Net interest income/(expense)	(76.1)	(73.1)	(67.0)	(67.0)
Pre-tax profit	68.6	306.3	309.4	315.3
Tax	(0.0)	(0.0)	0.0	0.0
Net profit	68.6	306.3	309.4	315.3
Net profit (adj.)	261.2	264.3	309.4	315.3

CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Operating	355.4	318.9	419.5	411.4
Pre-tax profit	68.6	306.3	309.4	315.3
Deprec. & amort.	0.1	0.1	0.1	0.1
Working capital changes	6.5	(4.6)	10.0	1.6
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	280.2	17.1	99.9	94.4
Investing	(13.7)	(20.0)	(20.0)	(20.0)
Capex (growth)	(14.4)	(20.0)	(20.0)	(20.0)
Capex (maintenance)	0.0	0.0	0.0	0.0
Others	0.7	0.0	0.0	0.0
Financing	(215.0)	(413.4)	(406.8)	(412.7)
Distribution to unitholders	(168.3)	(305.4)	(333.4)	(339.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	29.7	(34.5)	0.0	0.0
Others/interest paid	(76.4)	(73.5)	(73.4)	(73.4)
Net cash inflow (outflow)	126.7	(114.5)	(7.4)	(21.3)
Beginning cash & cash equivalent	65.9	192.5	78.1	70.7
Ending cash & cash equivalent	192.5	78.1	70.7	49.4

BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Fixed assets	8,737.3	8,784.2	8,784.2	8,784.2
Other LT assets	6.8	7.2	7.2	7.2
Cash/ST investment	192.5	78.1	70.7	49.4
Other current assets	14.0	12.9	13.6	13.7
Total assets	8,950.6	8,882.4	8,875.7	8,854.5
ST debt	70.0	263.7	263.7	263.7
Other current liabilities	116.4	111.4	122.1	123.8
LT debt	2,959.6	2,731.4	2,731.4	2,731.4
Other LT liabilities	95.6	79.1	85.7	86.8
Shareholders' equity	5,709.0	5,696.7	5,672.7	5,648.7
Total liabilities & equity	8,950.6	8,882.4	8,875.7	8,854.5

KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	70.4	69.1	70.4	70.5
Pre-tax margin	14.3	62.7	57.9	58.1
Net margin	14.3	62.7	57.9	58.1
ROA	0.8	3.4	3.5	3.6
ROE	1.2	5.4	5.4	5.6
Growth				
Turnover	(0.8)	1.9	9.6	1.5
EBITDA	(0.9)	0.0	11.6	1.6
Pre-tax profit	(87.4)	346.4	1.0	1.9
Net profit	(87.4)	346.4	1.0	1.9
Net profit (adj.)	(0.5)	1.2	17.1	1.9
EPU	(6.8)	0.9	16.8	1.6
Leverage				
Debt to total capital	34.7	34.5	34.6	34.7
Debt to equity	53.1	52.6	52.8	53.0
Net debt/(cash) to equity	49.7	51.2	51.6	52.1
Interest cover (x)	4.4	4.6	5.6	5.7

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 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W