

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

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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.

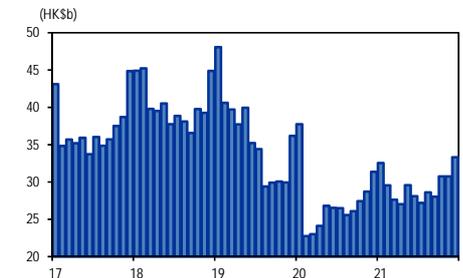
VALUATION/RECOMMENDATION

- **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



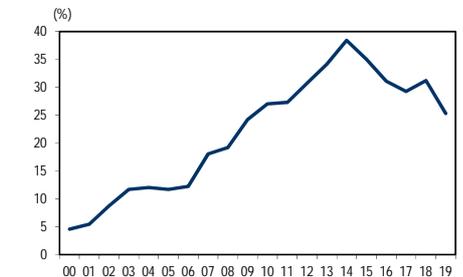
Source: CEIC

RETAIL SALES AND RESTAURANT RECEIPTS, YOY % CHG



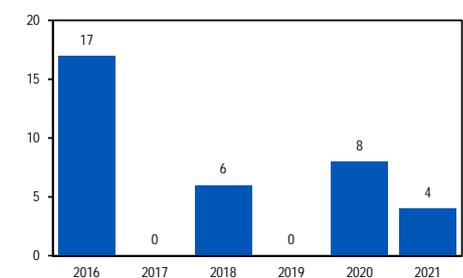
Source: CEIC

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

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