

## Singapore

**ADD** (no change)

Consensus ratings\*: Buy 3 Hold 0 Sell 1

Current price:	US\$0.058
Target price:	US\$0.25
Previous target:	US\$0.25
Up/downside:	331.0%
CGS-CIMB / Consensus:	6.4%
Reuters:	MANU.SI
Bloomberg:	MUST SP
Market cap:	US\$103.0m
Average daily turnover:	US\$0.64m
Current shares o/s:	1,835m
Free float:	94.2%

\*Source: Bloomberg

### Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.9	-44.2	-83.7
Relative (%)	-3.4	-39.3	-85

Major shareholders	% held
Manulife Financial Corp	5.8
Prudential PLC	5.2
DBS Bank Holdings	2.8

### Analyst(s)



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# Manulife US REIT

## Still work in progress

- 3Q23 portfolio occupancy dipped, but rent reversion was a robust +24.2%.
- To address its financial covenant breach and longer-term liquidity, MUST assembled a Sponsor package and identified non-core assets for sale.
- Reiterate Add, with a TP of US\$0.25.

### 3Q23 update highlights

3Q23 portfolio occupancy slipped qoq to 84.7% (from 85.1% at end-2Q23). Manulife US REIT (MUST) leased/renewed 193k sq ft of space in 3Q23 (9M: 636k sq ft), including early renewal of its fourth largest tenant, Kilpatrick Townsend at Peachtree. Renewal demand made up 90% of the leases signed in 3Q. Tenants were mainly from the legal, finance & insurance, healthcare, accounting, construction and information sectors. Overall, MUST posted a +24.2% rent reversion in 3Q23 (+10% in 9M23). MUST has a balance of 5.6%/13.4% of leases expiring in 4Q23F/FY24F. According to property consultant Jones Lang Lasalle, although leasing volumes in MUST's submarkets continue to be slow, lease terms are lengthening. Net effective rents appear to be stabilising, and tenant incentives are moderating. That said, sub-leasing activities continue to inch up qoq as tenants sub-lease their under-utilised spaces.

### Assembled Sponsor package, identified non-core assets for sale

As at end-3Q23, MUST's aggregate leverage stood at 56%, based on Monetary Authority of Singapore (MAS) guidelines, while its interest coverage (ICR) slipped to 2.4x. With its interest rate hedges progressively rolling off, the proportion of fixed rate loans dipped to 69.2% in 3Q23 (from 80.2% in 2Q23), while interest cost rose qoq to 4.38%. With US office values still under pressure for 2023F, we believe gearing should remain elevated in the near term. In terms of its ongoing discussion with lenders, MUST indicated it remains focused on negotiations with lenders, formulating long-term liquidity plans, pursuing a mandate to divest assets to reduce its debts and for capex, and undertaking a strategic review of the REIT. Management updated that it has assembled a Sponsor package, and execution of this package will depend on lenders' approval. In addition, it has identified non-core assets for sale based on future return potential and capex requirements. We believe that until there is more visibility on MUST's negotiations for a waiver of its financial covenants, its share price could likely remain under pressure.

### Retain Add rating

We keep FY23-25F DPU's unchanged and maintain our DDM-based TP at US\$0.25. While the uncertainty of outcome of its negotiations with its lenders remains a near-term overhang on its share price, we believe its current valuation of 0.13x FY23F P/BV has factored in much of its operational and financial challenges. Hence, we maintain our Add call. Potential re-rating catalysts: quick conclusion to its negotiations with its lenders and a swift recovery of the US office transactions market, which would provide more financial and earnings certainty. Key downside risks: slower-than-expected backfilling of vacated spaces impacting its near-term income visibility, and a protracted slowdown in the US economy, which could dampen appetite for its office space.


Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (US\$m)	185.1	202.6	202.0	199.6	207.5
Net Property Income (US\$m)	109.5	113.2	120.7	116.4	121.0
Net Profit (US\$m)	25.5	(129.7)	68.7	69.2	68.8
Distributable Profit (US\$m)	85.60	84.05	70.83	71.23	70.90
DPS (US\$)	0.053	0.048	0.039	0.039	0.038
Dividend Yield	92.1%	82.0%	67.0%	66.5%	65.4%
Asset Leverage	42.7%	48.6%	47.8%	47.8%	47.8%
BVPS (US\$)	0.68	0.57	0.57	0.56	0.56
P/BV (x)	0.09	0.10	0.10	0.10	0.10
Recurring ROE	1.9%	(13.4%)	6.7%	6.7%	6.6%
DPS/Consensus DPS (x)			1.94	1.48	1.46

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: SREIT peer comparison**

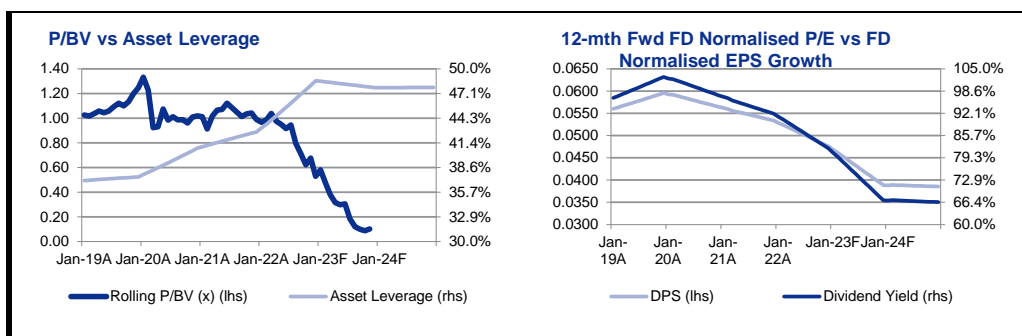
SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			as at 03 Nov 23	Price (LC) (DDM-based)					FY23F	FY24F	FY25F
<b>Hospitality</b>											
CapitaLand Ascott Trust	CLAS SP	Add	0.93	1.32	\$2,554	38.6%	1.16	0.80	6.6%	7.5%	7.7%
CDL Hospitality Trust	CDREIT SP	Add	1.00	1.43	\$915	38.4%	1.31	0.76	6.3%	7.1%	7.7%
Far East Hospitality Trust	FEHT SP	Add	0.60	0.77	\$882	32.2%	0.85	0.70	6.4%	7.1%	7.3%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
<b>Simple Average</b>						<b>37.1%</b>		<b>0.75</b>	<b>6.0%</b>	<b>6.7%</b>	<b>7.0%</b>
<b>Industrial</b>											
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%
CapitaLand Ascendas REIT	CLAR SP	Add	2.70	3.06	\$8,706	36.7%	2.31	1.17	6.0%	6.1%	6.3%
ESR-LOGOS REIT	EREIT SP	Add	0.28	0.39	\$1,579	37.7%	0.33	0.85	9.4%	9.1%	9.2%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.11	1.27	\$3,040	30.2%	1.17	0.95	6.3%	6.0%	6.2%
Keppel DC REIT	KDCREIT SP	Add	1.81	2.53	\$2,288	37.3%	1.37	1.32	5.7%	6.0%	6.2%
Mapletree Industrial Trust	MINT SP	Add	2.19	2.61	\$4,556	37.9%	1.88	1.16	6.2%	6.3%	6.5%
Mapletree Logistics Trust	MLT SP	Add	1.54	1.88	\$5,610	38.9%	1.42	1.08	5.9%	5.6%	5.7%
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	32.4%	0.53	0.73	7.9%	7.9%	8.2%
<b>Simple Average</b>						<b>35.9%</b>		<b>1.14</b>	<b>6.9%</b>	<b>6.8%</b>	<b>7.0%</b>
<b>Office</b>											
Keppel REIT	KREIT SP	Add	0.83	1.14	\$2,292	39.5%	1.31	0.63	7.2%	7.3%	7.6%
OUE Commercial REIT	OUECT SP	Hold	0.25	0.36	\$987	39.4%	0.59	0.42	8.7%	8.8%	9.0%
Suntec REIT	SUN SP	Hold	1.13	1.25	\$2,404	42.7%	2.09	0.54	6.3%	6.1%	6.4%
<b>Simple Average</b>						<b>40.5%</b>		<b>0.53</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.7%</b>
<b>Retail</b>											
CapitaLand Integrated Commercial	CICT SP	Add	1.84	2.17	\$8,992	40.8%	2.12	0.87	5.9%	6.1%	6.3%
Frasers Centrepoint Trust	FCT SP	Add	2.09	2.52	\$2,628	39.3%	2.31	0.90	5.8%	5.6%	5.8%
Lendlease Global Commercial REIT	LREIT SP	Add	0.55	0.82	\$932	40.6%	0.78	0.70	8.5%	7.8%	8.3%
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.36	1.54	\$5,240	40.7%	1.81	0.75	7.1%	6.3%	6.4%
Paragon REIT	PGNREIT SP	Hold	0.83	0.88	\$1,717	29.8%	0.91	0.91	5.6%	5.7%	6.0%
Starhill Global REIT	SGREIT SP	Add	0.48	0.62	\$796	37.4%	0.80	0.60	7.9%	8.2%	8.5%
<b>Simple Average</b>						<b>38.1%</b>		<b>0.79</b>	<b>6.8%</b>	<b>6.6%</b>	<b>6.9%</b>
<b>Overseas-centric</b>											
CapitaLand China Trust	CLCT SP	NR	0.92	NA	\$1,139	34.7%	1.55	0.59	8.6%	9.2%	9.5%
Elite Commercial REIT	ELITE SP	Add	0.25	0.49	\$144	46.0%	0.51	0.48	14.8%	16.6%	16.7%
Manulife US REIT	MUST SP	Add	0.06	0.25	\$103	56.0%	0.40	0.15	67.0%	66.5%	65.4%
Sasseur REIT	SASSR SP	Add	0.66	0.95	\$596	26.2%	0.83	0.79	9.5%	9.6%	10.1%
<b>Simple Average</b>						<b>41.1%</b>		<b>0.50</b>	<b>25.0%</b>	<b>25.5%</b>	<b>25.4%</b>
<b>Healthcare</b>											
Parkway Life REIT	PREIT SP	Add	3.49	4.50	\$1,551	36.0%	2.29	1.52	4.2%	4.3%	4.4%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS  
 NR estimates are based on Bloomberg consensus' forecasts

ESG in a nutshell		Refinitiv ESG Scores					
							
		B ESG Score	A+ ESG Controversies Score	B ESG Combined Score	B+ ESG Environment Pillar Score	B- ESG Social Pillar Score	B ESG Governance Pillar Score
<p>Manulife US REIT's (MUST) ESG score for 2022 is B, according to Refinitiv, with B+ for Environmental, B- for Social, and B for Governance. MUST rates well for ESG Controversies at A+. As part of its efforts to further integrate sustainability into its business, MUST has articulated three key pillars: 1) building resilience through sustainable building, improve energy, water management, and greenhouse gas (GHG) emissions and climate change mitigation, 2) adopt a people-first strategy through good employment practices, training and development, as well as diversity and inclusion, 3) driving sustainable growth through corporate and economic governance and produce economic contribution to society. MUST has laid out clear long-term ESG targets, including achieving a 38%/33% reduction in GHG emissions/energy intensity by 2035F (from a 2018 base year) and lower GHG emissions/energy intensity by 80%/49% by 2050F (vs. its base year of 2018). It also aims to achieve 100% green-certified portfolio by NLA by 2030.</p>							
<p><b>Keep your eye on</b></p> <p>Some of MUST's ESG scores that rank lower, according to Refinitiv, include environmental innovation (D+) and shareholders (D-).</p>	<p><b>Implications</b></p> <p>Our current valuations have not ascribed a premium/discount for its ESG achievements. As MUST continue on its ESG journey, its overall ESG score should continue to improve, in our view.</p>						
<p><b>ESG highlights</b></p> <p>According to Refinitiv, MUST ranks 34th within its coverage of Singapore companies and 8th in the REIT space. Some of MUST's key ESG achievements in FY22 include achieving a 32.6% reduction in GHG emissions intensity from 2018 base year, lowered energy intensity by 27.3% from 2018 base year, and reduced water usage intensity by 7.2% vs 2018 base year. It also increased the proportion of green-certified portfolio by NLA to 93% vs 70% a year ago. It improved the ratio of green financing to 64.4% (US\$665m) of total borrowings as at Dec 22. In addition, it achieved 'A' for GRESB Public Disclosure and received 5 Star for GRESB Real Estate Assessment.</p>	<p><b>Implications</b></p> <p>We have not applied any premium/discount for ESG in our fundamental valuations of MUST. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.</p>						
<p><b>Trends</b></p> <p>Among the various pillars, MUST scores well in emissions (A-), workforce (A-), management (A-) and has improved its community score to C (from D).</p>	<p><b>Implications</b></p> <p>We have not applied any premium/discount for ESG in our fundamental valuations of MUST.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	185.1	202.6	202.0	199.6	207.5
Other Revenues					
<b>Gross Property Revenue</b>	<b>185.1</b>	<b>202.6</b>	<b>202.0</b>	<b>199.6</b>	<b>207.5</b>
Total Property Expenses	(75.6)	(89.4)	(81.3)	(83.1)	(86.5)
<b>Net Property Income</b>	<b>109.5</b>	<b>113.2</b>	<b>120.7</b>	<b>116.4</b>	<b>121.0</b>
General And Admin. Expenses					
Management Fees	(8.6)	(8.8)	(7.1)	(6.7)	(7.1)
Trustee's Fees	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Other Operating Expenses	(2.5)	(2.4)	(2.9)	(2.9)	(3.0)
<b>EBITDA</b>	<b>98.2</b>	<b>101.7</b>	<b>110.5</b>	<b>106.6</b>	<b>110.7</b>
Depreciation And Amortisation					
<b>EBIT</b>	<b>98.2</b>	<b>101.7</b>	<b>110.5</b>	<b>106.6</b>	<b>110.7</b>
Net Interest Income	(29.1)	(33.9)	(41.7)	(41.4)	(41.8)
Associates' Profit					
Other Income/(Expenses)					
Exceptional Items	(42.4)	(215.6)	0.0	4.0	0.0
<b>Pre-tax Profit</b>	<b>26.7</b>	<b>(147.8)</b>	<b>68.8</b>	<b>69.2</b>	<b>68.9</b>
Taxation	(1.1)	18.1	(0.1)	(0.1)	(0.1)
Minority Interests					
Preferred Dividends					
<b>Net Profit</b>	<b>25.5</b>	<b>(129.7)</b>	<b>68.7</b>	<b>69.2</b>	<b>68.8</b>
<b>Distributable Profit</b>	<b>85.6</b>	<b>84.0</b>	<b>70.8</b>	<b>71.2</b>	<b>70.9</b>

### Cash Flow

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Pre-tax Profit</b>	<b>26.7</b>	<b>(147.8)</b>	<b>68.8</b>	<b>69.2</b>	<b>68.9</b>
Depreciation And Non-cash Adj.	29.1	33.9	41.7	41.4	41.8
Change In Working Capital	6.1	1.2	(0.1)	(0.3)	1.0
Tax Paid	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Others	15.0	204.8	(41.7)	(41.4)	(41.8)
<b>Cashflow From Operations</b>	<b>76.7</b>	<b>92.0</b>	<b>68.7</b>	<b>68.9</b>	<b>69.8</b>
Capex	(30.0)	(25.4)	(25.0)	(15.0)	(12.0)
Net Investments And Sale Of FA	(201.0)	0.0	33.5	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(230.9)</b>	<b>(25.4)</b>	<b>8.5</b>	<b>(15.0)</b>	<b>(12.0)</b>
Debt Raised/(repaid)	118.5	57.7	(23.5)	10.0	10.0
Equity Raised/(Repaid)	100.0	0.0	12.4	12.2	12.8
Dividends Paid	(84.0)	(88.6)	(70.8)	(71.2)	(70.9)
Cash Interest And Others	(31.4)	(35.3)	(41.7)	(41.4)	(41.8)
<b>Cash Flow From Financing</b>	<b>103.1</b>	<b>(66.3)</b>	<b>(123.5)</b>	<b>(90.4)</b>	<b>(89.9)</b>
Total Cash Generated	(51.1)	0.4	(46.4)	(36.6)	(32.1)
Free Cashflow To Firm	(154.2)	66.7	77.2	53.9	57.9
Free Cashflow To Equity	(64.8)	90.4	12.0	22.5	26.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Investments</b>	2,184	1,947	1,939	1,954	1,966
Intangible Assets	0	0	0	0	0
Other Long-term Assets	6	48	48	48	48
<b>Total Non-current Assets</b>	2,190	1,995	1,986	2,001	2,013
<b>Total Cash And Equivalents</b>	79	113	108	113	123
Inventories	0	0	0	0	0
Trade Debtors	6	5	5	5	6
Other Current Assets	1	3	3	3	3
<b>Total Current Assets</b>	86	121	116	121	131
Trade Creditors	59	31	31	31	32
Short-term Debt	297	145	145	145	145
Other Current Liabilities	8	8	9	9	9
<b>Total Current Liabilities</b>	364	184	184	184	185
Long-term Borrowings	675	884	861	871	881
Other Long-term Liabilities	50	27	27	27	27
<b>Total Non-current Liabilities</b>	724	911	888	898	908
Shareholders' Equity	1,188	1,020	1,031	1,041	1,051
Minority Interests					
Preferred Shareholders Funds					
<b>Total Equity</b>	1,188	1,020	1,031	1,041	1,051

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	(4.74%)	9.43%	(0.30%)	(1.17%)	3.95%
NPI Growth	(5.43%)	3.30%	6.65%	(3.52%)	3.90%
Net Property Income Margin	59.2%	55.9%	59.8%	58.3%	58.3%
DPS Growth	(5.4%)	(10.9%)	(18.3%)	(0.8%)	(1.6%)
Gross Interest Cover	3.37	3.00	2.65	2.57	2.65
Effective Tax Rate	4.29%	0.00%	0.10%	0.10%	0.10%
Net Dividend Payout Ratio	335%	NA	103%	103%	103%
Current Ratio	0.24	0.66	0.63	0.66	0.71
Quick Ratio	0.24	0.66	0.63	0.66	0.71
Cash Ratio	0.22	0.61	0.59	0.61	0.66
Return On Average Assets	1.17%	(5.91%)	3.26%	3.27%	3.23%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Net lettable area ('000sf)	5,412.4	5,412.4	5,412.4	5,279.5	5,279.5
AUM (US\$m)	2,184.4	1,947.0	1,667.1	1,649.9	1,666.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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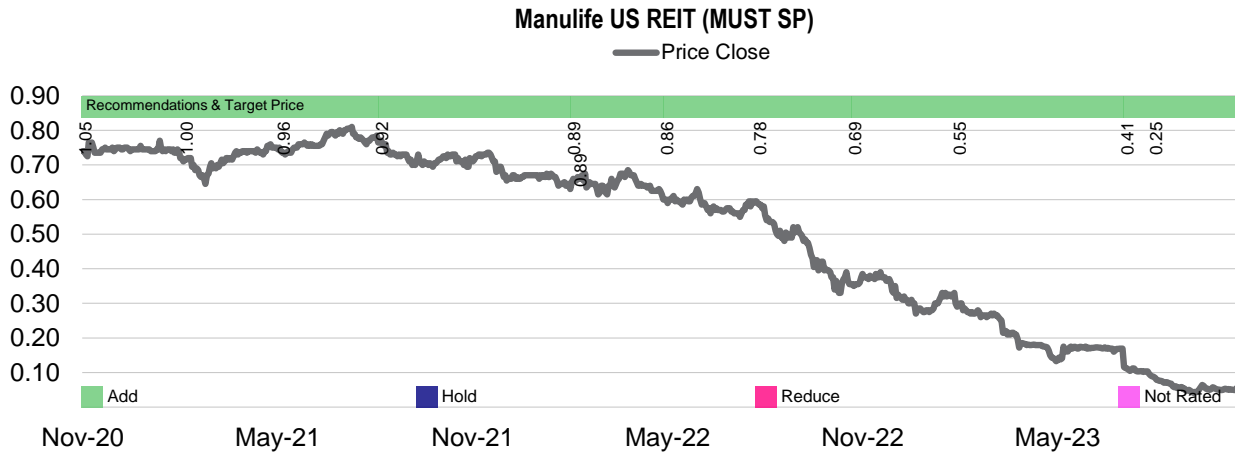
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	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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