

Manulife US REIT (MUST SP)

A Play On Work

Stable core with embedded growth; Initiate at BUY

Manulife US REIT (MUST), with its seven freehold US office assets backed by high-quality tenancies, remains a good proxy for favourable US macroeconomic fundamentals, in our view. DPU visibility is supported by stable income growth and low leasing risks, with: 1) 94% of its leases embedded with either annual rental escalations averaging 2.5% or mid-term, periodic rental increases; 2) a long 5.8-year WALE with 48.7% of gross rental income expiring after 2023; and 3) a diversified 116-strong tenant base. MUST offers 6.9-7.1% FY19-20E DPU yields vs 4.6-6.6% promised by its office S-REIT peers. We initiate coverage with BUY and a DDM-based TP of USD1.00 (COE: 7.7%, LTG: 2.0%). Key risks are: 1) adverse changes to its US REIT status; 2) changes to tax regimes; and 3) a slower US office sector outlook.

Long WALE, diversified portfolio = steady yield base

MUST's WALE is a relatively long 5.8 years by NLA with lease expiries well-spread, longer than the 3-4 years for Singapore offices and one of the highest among S-REITs. Portfolio occupancy is a high 96.7%. We see 2.0-3.5% DPU growth starting FY20E, supported by an advantageous lease structure. About 55% of its leases are embedded with fixed rental escalations averaging 2.5% pa; another 39% are under mid-term or periodic rental increases. While net absorption has been robust owing to a strong US economic recovery and rising new supply, MUST's assets are well-placed in cities with firm demand-growth prospects. We see rents rising by up to 5-10% in 2019-20E on tight supply.

Strong sponsor, pipeline assets for growth

Four acquisitions completed since its May 2016 IPO boosted its AUM by 124% to USD1.7b at end-Dec 2018. Gearing has risen steadily to fund deals but remains at a comfortable 37.2%, implying USD260m in debt headroom. We expect acquisitions to provide upside to DPUs. Sponsor Manulife has a strong deal pipeline of real-estate assets concentrated in the US.

Tax overhang cleared, ~7% DPU yields compelling

We expect its tax structure to be intact based on proposed US S267A regulations. Management is exploring the possibility of reverting to its original IPO form following confirmed regulations by 1H19. This could result in 1.5% of additional tax savings, plus upside to our DPU forecast.

| FYE Dec (USD m) | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------|-------|--------|-------|-------|-------|
| Revenue | 92 | 145 | 160 | 165 | 169 |
| Net property income | 58 | 91 | 100 | 104 | 106 |
| Core net profit | 47 | 71 | 76 | 79 | 81 |
| Core EPU (cts) | 7.2 | 5.5 | 5.5 | 5.7 | 5.8 |
| Core EPU growth (%) | (5.0) | (24.0) | (0.3) | 3.5 | 2.0 |
| DPU (cts) | 5.8 | 6.1 | 5.9 | 6.1 | 6.3 |
| DPU growth (%) | 77.4 | 3.7 | (2.0) | 3.5 | 2.0 |
| P/NTA (x) | 1.8 | 1.4 | 1.4 | 1.3 | 1.3 |
| DPU yield (%) | 6.5 | 7.9 | 6.9 | 7.1 | 7.3 |
| ROAE (%) | 3.8 | 5.0 | 6.5 | 6.4 | 6.3 |
| ROAA (%) | 4.2 | 4.5 | 4.2 | 4.2 | 4.2 |
| Debt/Assets (x) | 0.33 | 0.37 | 0.36 | 0.35 | 0.34 |
| Consensus DPU | - | - | 6.0 | 6.1 | 6.2 |
| MKE vs. Consensus (%) | - | - | (1.1) | 0.7 | 1.2 |

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BUY

Share Price USD 0.86 12m Price Target USD 1.00 (+16%)

Company Description

Manulife US REIT invests directly or indirectly in a portfolio of income producing office real estate in the US market.

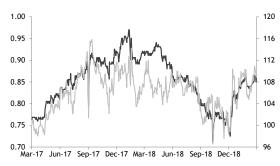
Statistics

| 52w high/low (USD) | 0.94/0.71 |
|------------------------|-----------|
| 3m avg turnover (USDm) | 0.8 |
| Free float (%) | 92.4 |
| Issued shares (m) | 1,280 |
| Market capitalisation | USD1.1B |
| | USD1.1B |
| | |

Major shareholders:

| 5.9% |
|------|
| 2.7% |
| 2.5% |
| |

Price Performance



— Manulife US REIT - (LHS, USD) — Manulife US REIT / Straits Times Index - (RHS, %)

| 1741 | -3M | -12M |
|------|-----|--|
| 2 | 18 | (6) |
| 5 | 12 | 3 |
| | 2 5 | 1M -3M 2 18 5 12 |

Source: FactSet

Value Proposition

- First pure-play US office REIT to be listed in Asia a good proxy for a rebounding US economy.
- 55% of leases has fixed rental escalations averaging 2.5% pa. 39% under periodic rental increases. Should support stable income growth and DPU visibility.
- Unique tax structure allows investors to access US real estate at lower tax rates, subject to conditions. MUST is subject to the same regulations as other S-REITs.
- Completed four acquisitions totalling USD820m since its IPO. Aims to scale up AUM from USD1.7b to USD2.6b in two years.

Sponsor Manulife offers acquisition growth pipeline.

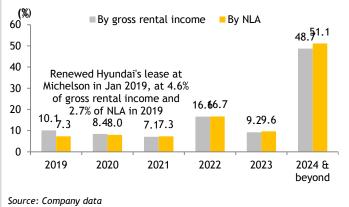
Sponsor's acquisition growth profile



Financial Metrics

- 5.8-year WALE by NLA with 51.1% of leases by NLA expiring after 2023. Lease expiries well-spread, with minimal due in 2019 and 2020.
- High 96.7% portfolio occupancy coupled with spread-out leases provides stable yield base.
- Most assets, with the exception of Michelson, are underrented at 5-10% below market rents.
- DPU growth at between -2.0% and +3.5% from FY19-21E.

Lease expiry profile



Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng, Bloomberg

- 1. Nov-16: Maiden interim results with 3Q18 NPI and DPU 1.5% and 5.8% respectively ahead of forecasts.
- Jun-17: Maiden acquisition of Plaza New Jersey for USD115.0m to boost AUM by 13.9% and NPI by 17.7%, with built-in rental escalation and 9.2 years WALE.
- 3. Sep-17: Acquired Exchange, its second property in New Jersey for USD313.2m; AUM and NPI rose 34.2% and 27.8%, with DPU at +2.2% post-rights.
- Apr-18: Acquired sponsor assets Penn (6.8 years WALE) in Washington D.C. for USD182.0m and Phipps (10 years WALE) in Atlanta for USD205.0m.
- 5. Dec-18: US IRS released proposed S267A tax regulations which will have minimal impact on the REIT structure.

Swing Factors

Upside

- Better-than-expected DPUs from forecasts.
- Accretive acquisition of new properties.
- Increases in rents, occupancy or property values of its assets.

Downside

- Spikes in interest rates.
- Value-destroying acquisitions.
- Changes in tax regime that affects its tax-efficient structure.

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1. Investment thesis

Diversified portfolio, well-supported occupancies

MUST owns seven freehold office properties in six US cities with strong demand-growth fundamentals. Portfolio occupancy averaged 96.7% as at end-Dec 2018. We expect occupancy to be well-supported by limited new supply in its micro-markets in 2019-20. This is against a backdrop of firm US economic fundamentals, where strong employment growth boosted net absorption of office space by 82% QoQ in 4Q18 to a 3-year high. Matching new supply kept vacancies stable at 13.2%, according to Cushman & Wakefield.

Favourable lease structure

DPU visibility is backed by its favourable lease structure, with about 94% of its leases by gross rental income having built-in rental escalations. Rents for 55% of these leases will increase by an average of 2.5% pa, with another 39% set for mid-term or period rental increases.

Long WALEs, potential for positive rental reversions

WALE is 5.8 years by NLA with 60.7% of its leases by NLA expiring from 2023. Its WALE is longer than the typical 3-4 years for Singapore offices; it is in fact one of the longest among S-REITs. Lease expiries are spread out, with minimal expiries due in 2019 and 2020. Excluding Hyundai's lease at Michelson which was renewed in Jan 2019, only 5.5% is due for renewal in 2019. We expect rental reversions of 8%. Most of MUST's assets, with the exception of Michelson, are under-rented at 5-10% below market rents.

Sponsor offers sizeable deal pipeline

Its sponsor operates a fully-integrated real-estate management platform which holds USD17.8b in real-estate AUM globally. About USD8.8b is located in the US. Swift AUM growth with 93 properties worth USD7.2b acquired since 2010 offers MUST access to a strong deal pipeline, especially of office buildings in the US.

Tax overhang cleared, shares up 22% since 4Q18

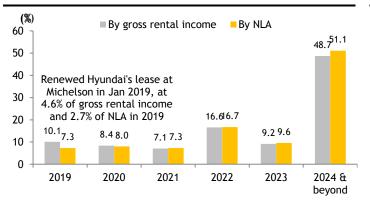
MUST in Dec 2018 announced that it expected to maintain its tax structure, based on proposed US S267A regulations. It is also exploring the possibility of reverting to its original IPO tax structure. This would exempt it from requirements for its Barbados entities (Fig 10), after confirmed regulations are released by 1H19. The result could be 1.5% in tax savings and upside for our DPU forecasts.

Compelling valuations

MUST trades at 6.9-7.1% FY19-20E DPU yields vs its office S-REIT peers' 4.6-6.6% and other US-listed REITs' 3.7-3.9%, while offering high DPU visibility. At our TP, MUST would trade at a 6.0% yield, about 3.5% above that of the 10-year US government bond.

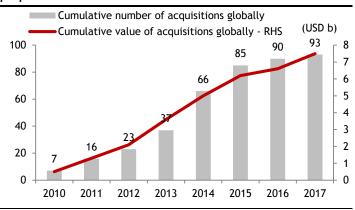
2. Focus charts

Fig 1: WALE at 5.8 years (by NLA), with minimal leases due in 2019



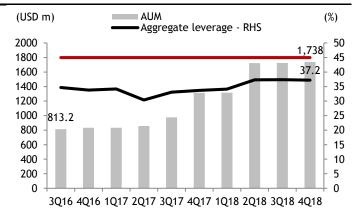
Source: Company data

Fig 3: Sponsor's acquisition growth profile (2010-2017) - 93 properties worth USD7.2b added since 2010



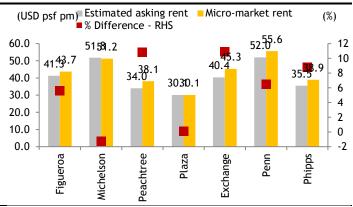
Source: Company data

Fig 5: AUM and aggregate leverage (3Q16-4Q18) - manageable at 37.2% even after four deals



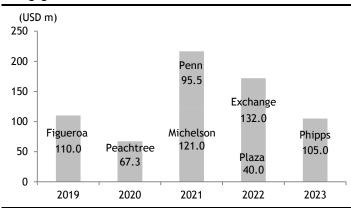
Source: Company data

Fig 2: Estimated gross passing rents for MUST's portfolio relative to micro-markets' gross asking rents



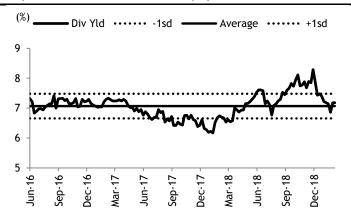
Source: Company data, CoStar Market Analysis & Forecast as of end-Jan 2019, Maybank Kim Eng

Fig 4: Debt maturity profile - well-distributed with long-dated mortgage loans



Source: Company data, as of end-Dec 2018

Fig 6: DPU yields back to their IPO levels and could be compressed further as the Fed stays patient on its rate hikes



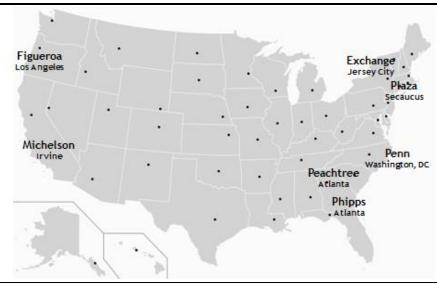
Source: Company data, Bloomberg, Maybank Kim Eng



3. Corporate information

3.1 Portfolio

Fig 7: Its US portfolio locations

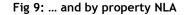


Source: Company data

3.2 Owns seven commercial buildings in six US cities

MUST owns seven commercial buildings in the US with a combined value of USD1.7b and NLA of 3.7m sf. All its buildings are on freehold land and classified as either Grade A or Trophy properties. Its largest properties are a) Michelson in Irvine, Orange County by appraised value at SGD345.0m and b) Exchange in Jersey City, New Jersey by NLA at about 732,000 sf.

Fig 8: AUM by property appraised value...



Penn

7%

Figueroa

Michelson

14%

Peachtree

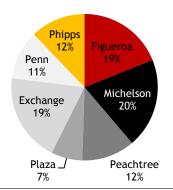
15%

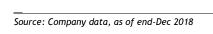
13%

Plaza 12%

Exchange

20%



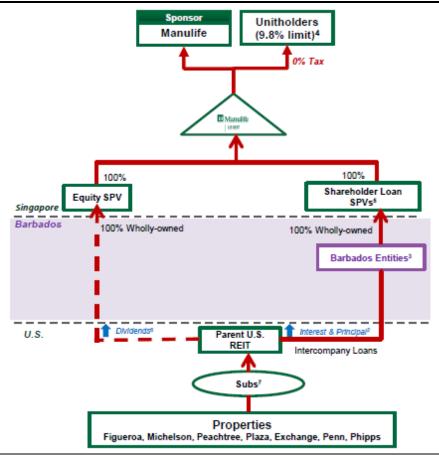


Source: Company data, as of end-Dec 2018

3.3 Structure

MUST has an efficient tax structure which allows it to minimise cash taxes payable if it can satisfy a few conditions. These include its US parent REIT's ability to maintain its US REIT status by deriving the bulk of its revenue from real-estate activities. Also, no individual shareholder can own more than 9.8% of MUST.

Fig 10: REIT structure



Source: Company data, as of end-Dec 2018

Notes:

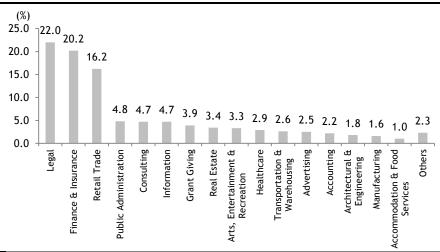
- (1) As at 1 Jan 2018.
- (2) Principal repayments are not subject to US withholding taxes. Interest payments are not subject to US withholding taxes assuming unitholders qualify for portfolio interest exemption and provide appropriate tax certifications, including an appropriate IRS Form W-8.
- (3) The Barbados Limited Partnerships have extended loans to the Parent US REIT and the interest income on the loans is taxed in Barbados.
- (4) No single investor (including the sponsor) to hold more than 9.8% 'Widely Held' (No more than 50% of shares can be owned by 5 or fewer individuals) rule for REITs in US.
- (5) There are three wholly-owned shareholder loan SPVs, each of which has made equity investments in two wholly-owned Barbados entities which had formed a Barbados Limited Partnership.
- (6) Subject to 30% withholding tax.
- (7) Each Sub holds an individual property.

3.4 Leases and tenancies

Diversified tenants

MUST had 116 tenants as at end-Dec 2018, with the top 10 accounting for 43.8% of its gross rental income. By trade mix, it has the largest exposure to the legal, finance & insurance and retail trade sectors, with no single tenant contributing more than 7.5% to its gross rental income.

Fig 11: Gross rental income by trade sector



Source: Company data, as of end-Dec 2018

Fig 12: Top 10 tenants by gross rental income

| Tenant | Sector | Gross rental income (%) |
|---------------------------------------|-----------------------|-------------------------|
| William Carter Co. | Retail | 7.5 |
| TCW | Finance & Insurance | 5.0 |
| Kilpatrick Townsend | Legal | 4.8 |
| Hyundai Capital | Finance & Insurance | 4.6 |
| The Children's Place | Retail | 4.2 |
| US Treasury | Public Administration | 4.1 |
| United Nations Foundation | Grant Giving | 3.8 |
| Quinn Emanuel | Legal | 3.6 |
| Amazon | Retail | 3.5 |
| Quest Diagnostics | Healthcare | 2.7 |
| · · · · · · · · · · · · · · · · · · · | | 43.8 |

Source: Company data, as of end-Dec 2018

High portfolio occupancy, well-supported

MUST's properties are located in cities with strong demand-growth fundamentals. Portfolio occupancy was 96.7% as at end-Dec 2018. We expect occupancy to be well-supported by limited new supply in its micromarkets in 2019-20.

Fig 13: MUST's portfolio and its US micro-market statistics

| Property | 4Q 2018 Class A market | Rentable building area | Vacancy (%) | Gross asking ren | Net t absorption | Net delivery | 12-month rent | New properties under construction | Delivery year |
|-----------|---------------------------|------------------------|----------------|---------------------|---------------------|-----------------|---------------|-----------------------------------|-------------------|
| | | - RBA (m sf) | | (USD) | ('000 sf) | ('000 sf) | growth | ('000 sf) | |
| Figueroa | Downtown LA | 39.1 | 14.5 | 43.70 | (139.4) | 0 | 1.6 | 0 | N.A. |
| Michelson | Irvine Orange County | 14.6 | 17.2 | 35.68 | (85.1) | 0 | 1.5 | 0 | N.A. |
| Peachtree | Buckhead Atlanta | 16.1 | 13.9 | 38.10 | (27.3) | 0 | 5.5 | 0 | N.A. |
| Plaza | Meadowlands | 3.5 | 18.0 | 30.11 | (361.9) | 0 | (0.2) | 0 | N.A. |
| Exchange | Hudson Waterfront | 18.7 | 17.1 | 45.28 | (78.4) | 0 | (1.0) | 0 | N.A. |
| Penn | Washington, DC | 30.5 | 10.7 | 55.61 | (45.3) | 0 | 0.3 | 1,264 | 1Q 2019 - 2Q 2020 |
| Phipps | Midtown Atlanta | 154.9 | 9.2 | 38.93 | (38.4) | 0 | 6.3 | 1,131 | 1Q 2019 - 2Q 2019 |

Source: Company data, CoStar Market Analysis & Forecast as of end-Jan 2019

Fig 14: MUST's portfolio and its US micro-market characteristics

| Property | City | City characteristics |
|-----------|----------------------|---|
| Figueroa | Downtown LA | (a) Surrounded by entertainment venues (Staples Center, the LA Convention Center, LA Live) (b) Residential development boom has created live, work and play environment |
| Michelson | Irvine Orange County | (a) Recognised as the CBD of Orange County(b) Strong labour pool with senior executives, middle managers and administrative personnel all living within Orange County(c) Headquarters for many technology companies (Google, Broadcom, Vizio) |
| Peachtree | Buckhead Atlanta | (a) International gateway city and headquarters for 15 Fortune 500 firms(b) 10th largest US economy(c) 20-minute drive to its international airport - the world's busiest |
| Plaza | Meadowlands | (a) Affordable office and residential options appeal to major corporates(b) strong regional connectivity through public transport infrastructure and inter-state highways |
| Exchange | Hudson Waterfront | (a) Part of New York metropolitan area with extensive mass-transit connectivity to Manhattan (b) Redevelopment of waterfront has increased significance of city as banking and finance centre - nicknamed 'Wall Street West' |
| Penn | Washington, DC | (a) Nation's capital, government hub and heart of CBD(b) Headquarters for many global firms, trade unions, non-profit organisations and professional associations(c) Pre-eminent commercial district commanding higher rents with low vacancies |
| Phipps | Midtown Atlanta | (a) As above for Buckhead Atlanta |

Source: Company data, Maybank Kim Eng

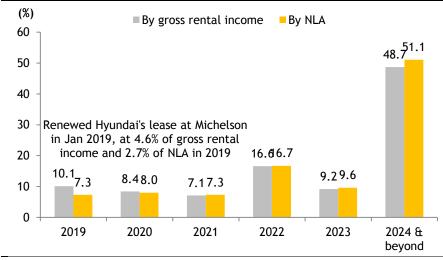
Favourable lease structure

About 94% of its leases by gross rental income have built-in rental escalations. Rents for 55% of these will increase by an average of 2.5% pa, while rents for the other 39% are set for mid-term or period increases.

Long WALEs, potential for positive rental reversions

WALE is long at 5.8 years by NLA with 60.7% of its leases by NLA expiring from 2023. Its WALE is longer than the typical 3-4 years for Singapore offices and in fact, ranks one of the longest among S-REITs. Lease expiries are spread out, with minimal expiries due in 2019 and 2020. Excluding Hyundai's lease at Michelson which was renewed in Jan 2019, only 5.5% is due for renewal in 2019. We expect rental reversions of 8%. Most of MUST's assets, with the exception of Michelson, are under-rented at 5-10% below market rents.

Fig 15: WALE at 5.8 years, with minimal leases due in 2019



Source: Company data

■ Estimated asking rent (USD psf pm) Micro-market rent (%) ■% Difference - RHS 52.0 52.0 60.0 12 51.81.2 10 50.0 35.5⁸ 8 40.0 30.30.1 6 30.0 4 20.0 2 10.0 0 0.0 -2 Penn Phipps Plaza Exchange Figueroa Michelson Peachtree

Fig 16: Estimated gross passing rents for MUST's portfolio relative to micromarkets' gross asking rents

Source: Company data, CoStar Market Analysis & Forecast as of end-Jan 2019, Maybank Kim Eng

Sponsor's acquisition pipeline as DPU growth lever

MUST's sponsor the Manufacturers Life Insurance Company (Manulife) is a leading Canada-based financial services group with over USD863b in AUM at end-Dec 2018, and operates a fully-integrated real estate management platform, Manulife Real Estate (MRE), which employs over 540 real estate professionals in 23 cities globally. As of end-Dec 2018, MRE held USD17.8b in real estate AUM globally, of which USD8.8b is located in the US. Office properties account for the bulk of its AUM in the US, at about 72%. Its sponsor's established real estate platform and swift growth in AUM should offer MUST access to a strong deal pipeline for real estate assets, especially office buildings in the US. MRE's strong acquisition track record is demonstrated by the acquisition of 93 properties worth USD7.2b since 2010. We do note however there is no ROFR being granted by the sponsor.

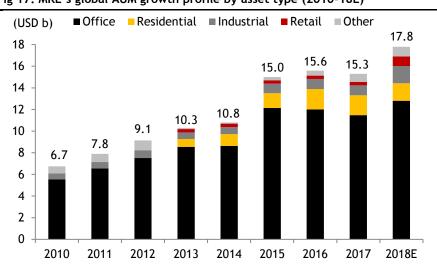


Fig 17: MRE's global AUM growth profile by asset type (2010-18E)

Source: Company data, on fair value basis, Maybank Kim Eng

Fig 18: MRE's global AUM growth profile by market (2010-18E)

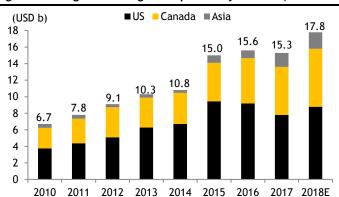
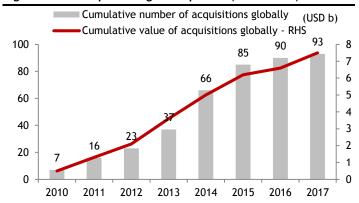


Fig 19: MRE's acquisition growth profile (2010-2017)



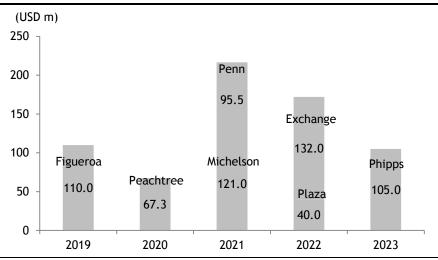
Source: Company data, on fair value basis, Maybank Kim Eng

Source: Company data

Sound capital management, long-dated mortgage loans

Its gearing of 37.2% sits easily below the MAS threshold of 45%, while its weighted debt maturity is 2.7 years and is well spread across its seven properties from 2019 to 2023. MUST is in advanced negotiations with local and foreign banks to refinance its Figueroa loan maturing in Jul 2019. Management is mulling the option of securing a bank club to refinance the loan whilst enabling flexibility for future capital needs and potential deals.

Fig 20: Debt maturity profile

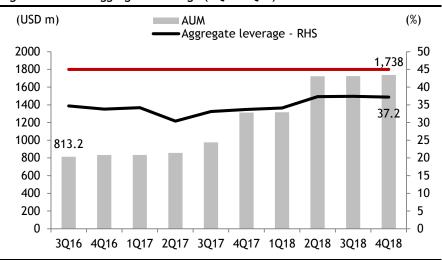


Source: Company data, as of end-Dec 2018

Gearing at 37.2% is manageable after four deals

MUST has completed four acquisitions since its May 2016 IPO, to grow its AUM by 124% from USD813.2m to USD1.7b as of end-Dec 2018. Gearing has risen steadily to fund its deals but remains at a comfortable 37.2%, implying USD260m in debt headroom.

Fig 21: AUM and aggregate leverage (3Q16-4Q18)



Source: Company data

4. US Office Sector Outlook

An acceleration in the US economy in 2018, helped by tax cuts, rising optimism and synchronized global growth, resulted in faster job growth and demand for office space. Absorption increased with the technology sector dominating growth in new leasing demand, according to Cushman & Wakefield (C&W). The impact of stronger demand growth was however balanced off by rising new construction - 52.7m sf of additional office space was completed in 2018, the fourth consecutive year completions rose above 50.0m sf. C&W further expects this supply pipeline to increase to a high of 114.0m sf in 2019, but that overall vacancy should remain flat against continuing job growth, with balanced growth in both office supply and demand from employment growth.

Strong absorption balancing off new supply

The US economy added 762,000 net new nonfarm payroll jobs in 4Q 2018, the highest quarterly job gains for the year. Strong employment growth led to an increase in net absorption (net change in occupied space), which jumped QoQ from 11.0m sf to 20.0m sf in 4Q 2018, the highest level since 4Q 2015. Meanwhile, 13.7m sf of new office space was completed and delivered to the market, up QoQ from 9.8m sf in 3Q 2018. As demand exceeded new supply, office vacancies declined QoQ from 13.4%, while it rose slightly YoY from 13.1% to 13.2% in 4Q 2018. Since 1Q 2016, vacancies have remained stable at between 13.1% to 13.4%, as absorption has balanced off the construction completions - a total of 159.4m sf was completed and 157.2m sf absorbed during the past three years. The increase in US office space against a rise in construction completions -114.2m sf was under construction at end 2018, up from 103.0m sf at end 2017 - would represent the highest volume in the market's current cycle at 2.1% of the total US inventory, but the bulk of new construction is in cities and markets with strong leasing demand. As such, the 15 markets with the highest volume of space under construction - accounting for 66.7m sf or 58.3% of US construction pipeline at end 2018 - were also among the strongest markets, contributing 29.5m sf or 54.8% of net absorption during 2018.

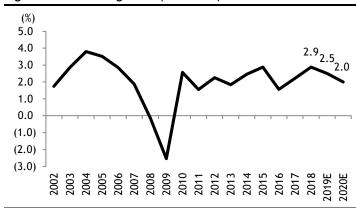
Demand from technology, financials, co-working

New office leasing volume totalled 74.7m sf in 4Q 2018, up YoY from 73.4m sf in 4Q 2017, but down QoQ from 80.2m sf. The technology sector contributed 34.4% of total new leasing volumes, ahead of the financial services sector's 18.8% share, and the real estate sector's 5.6% - the latter was led by the rapid expansion of co-working players. Technology sector leases accounted for 29.3% of activity in 2018, followed by financial services at 20.7% and real estate at 6.3%, according to C&W. As such, US cities with strong technology sectors boasted the highest leasing volumes.

Rental growth moderating, but ample opportunities for yield-accretive deals

Average asking rents rose to a record USD31.45 psf in 4Q 2018 (+2.2% YoY); this was the smallest YoY rise since 2014 when rents rose 2.0% YoY. 50 markets (out of 87) recorded QoQ increases in asking rents, the smallest number since 1Q 2018, according to C&W. The US market continues to offer depth in terms of yield-accretive assets. While interest rates climbed steadily to 2.5%, there remains a substantial yield-spread to cap rates for Class A CBD and suburban office properties at between 5.25% and 8.5%, according to CBRE.

Fig 22: US real GDP growth (2002-20E)



Source: CEIC, Maybank Kim Eng

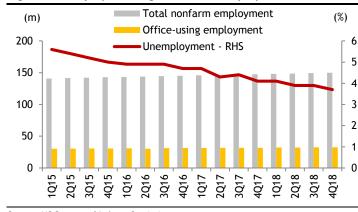
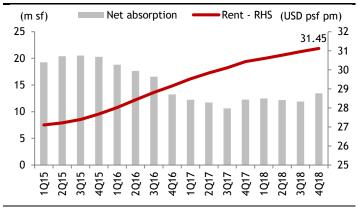


Fig 23: US employment figures and unemployment rate

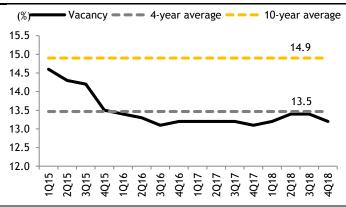
Source: US Bureau of Labour Statistics

Fig 24: US office net absorption and asking rent (trailing avg.)



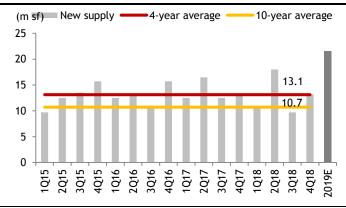
Source: Cushman & Wakefield

Fig 25: US office overall vacancy



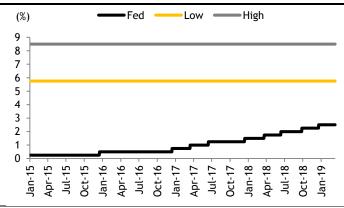
Source: Cushman & Wakefield

Fig 26: US office new supply



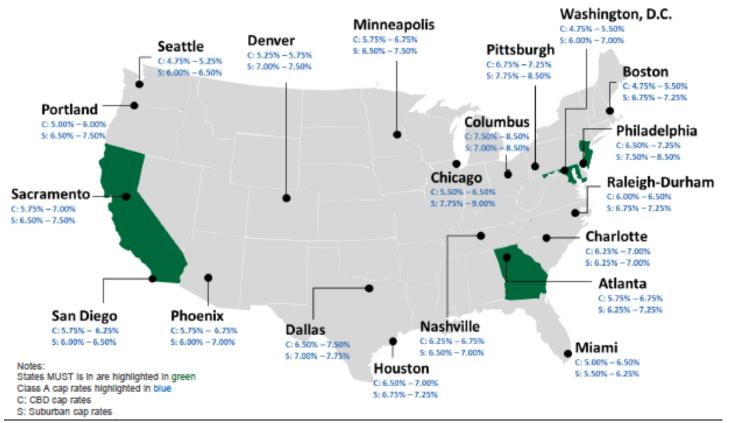
Source: Cushman & Wakefield

Fig 27: US Class A cap rates and Fed funds rate



Source: CBRE, Bloomberg

Fig 28: US Class A office cap rates (CBD and suburban properties) as of 2H 2018



Source: CBRE

5. Financial analysis

We set out our earnings forecasts for MUST in Fig 29-33; we consolidate earnings projections for its individual properties, with no potential acquisitions assumed. The property income comprises rental income and recoveries income (service charge) including real estate tax, car park income and others, and is adjusted under the straight-line method. From that, we deduct the various expenses at both the property and REIT level to arrive at our net income for MUST. Given MUST pays out 100% of both property management fees and trust management fees in units, we further adjust these non-cash items to arrive at our distributable income. We have assumed MUST distributes 100% of distributable income in 2019, 2020 and thereafter.

We forecast average occupancy of 97.7-98.1% for FY19-21E, up from 96.7% at end-Dec 2018. We forecast passing-rent growth of 3.0-5.0% for FY19-20E, supported by limited supply in its key micro-markets. We believe higher occupancy and positive rental forecasts are reasonable against the current backdrop of a favourable office cycle in its US markets.

While MUST has locked in 100% of its debt at fixed rates, we expect borrowing costs to rise with the refinancing of its Figeuroa loan in 2019, and we have assumed an average interest cost of 3.5%.

We factor in capex of USD20.0m for FY19E, in line with management's budget for Figueroa and Exchange, but have not included any further requirements going forward.

Fig 29: Property level forecasts

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------|-------|-------|-------|-------|-------|
| Construction (UCD and | ••• | | | | |
| Gross revenue (USD m) | 92.0 | 144.6 | 159.7 | 165.1 | 169.2 |
| Figueroa | 29.8 | 29.9 | 29.7 | 31.2 | 32.0 |
| Michelson | 29.7 | 29.0 | 28.0 | 28.9 | 29.6 |
| Peachtree | 20.6 | 19.7 | 20.6 | 21.2 | 21.7 |
| Plaza | 6.7 | 15.4 | 13.8 | 14.2 | 14.6 |
| Exchange | 5.2 | 31.9 | 33.0 | 33.9 | 34.8 |
| Penn | | 8.9 | 15.8 | 16.3 | 16.7 |
| Phipps | | 9.8 | 18.7 | 19.2 | 19.7 |
| | | | | | |
| NPI (USD m) | 58.4 | 90.7 | 100.3 | 103.7 | 106.2 |
| Figueroa | 16.8 | 16.1 | 16.0 | 16.8 | 17.2 |
| Michelson | 21.1 | 20.3 | 19.6 | 20.2 | 20.7 |
| Peachtree | 12.8 | 12.6 | 13.2 | 13.6 | 13.9 |
| Plaza | 4.2 | 8.8 | 7.9 | 8.1 | 8.3 |
| Exchange | 3.5 | 21.1 | 21.8 | 22.5 | 23.0 |
| Penn | | 5.2 | 9.3 | 9.5 | 9.8 |
| Phipps | | 6.6 | 12.6 | 12.9 | 13.3 |

Source: Company data, Maybank Kim Eng

Fig 30: Key ratios

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|-------|-------|-------|-------|-------|
| | | | | | |
| Occupancy | 95.9 | 96.7 | 97.7 | 98.1 | 98.1 |
| NP margin (%) | 63.4 | 62.7 | 62.8 | 62.8 | 62.8 |
| Revenue growth (% YoY) | 93.7 | 57.1 | 10.5 | 3.4 | 2.5 |
| Distribution growth (% YoY) | 109.4 | 51.9 | 7.3 | 4.1 | 2.5 |
| Aggregate leverage (%) | 33.5 | 37.2 | 37.1 | 35.9 | 35.0 |

Source: Company data, Maybank Kim Eng

Fig 31: Income statement

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|--------|--------|--------|--------|--------|
| | | | | | |
| Gross revenue | 92.0 | 144.6 | 159.7 | 165.1 | 169.2 |
| Property expenses | (33.7) | (53.9) | (59.3) | (61.4) | (62.9) |
| NPI | 58.4 | 90.7 | 100.3 | 103.7 | 106.2 |
| Base fee | (4.7) | (7.1) | (5.7) | (5.9) | (6.1) |
| Performance fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Management fees | (4.7) | (7.1) | (5.7) | (5.9) | (6.1) |
| Trust expenses/others | (0.2) | (0.2) | (0.2) | (0.2) | (0.2) |
| Others | (1.6) | (2.0) | 0.0 | 0.0 | 0.0 |
| Total trust expenses | (6.5) | (9.3) | (5.9) | (6.2) | (6.3) |
| EBIT | 51.9 | 81.3 | 94.4 | 97.5 | 99.9 |
| Borrowing costs, cash | (9.5) | (19.2) | (23.1) | (23.3) | (23.8) |
| Forex gain/losses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest income | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| PBT | 42.4 | 62,3 | 71.5 | 74.4 | 76.3 |
| Revaluation gains/others | 31.4 | 16.9 | 0.0 | 0.0 | 0.0 |
| Income tax | (15.8) | (14.7) | (1.1) | (1.1) | (1.1) |
| Reported net income | 58.0 | 64.5 | 70.5 | 73.3 | 75.2 |
| Core income (ex reval) | 26.6 | 47.6 | 70.5 | 73.3 | 75.2 |
| Available for distribution | 46.7 | 71.0 | 76.2 | 79.3 | 81.3 |
| Dividend payout | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Distribution to unitholders | 46.7 | 71.0 | 76.2 | 79.3 | 81.3 |

Source: Company data, Maybank Kim Eng

Fig 32: Balance sheet

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------|---------|---------|---------|------------|-------------|
| | | | | | |
| Current assets | | | | | |
| Cash | 49.7 | 54.1 | 47.0 | 47.0 | 47.0 |
| Other | 6.7 | 10.1 | 10.1 | 10.1 | 10.1 |
| Total | 56.4 | 64.2 | 57.1 | 57.1 | 57.1 |
| Non-current assets | | | | | |
| Plant & equipment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment properties | 1,312.8 | 1,738.7 | 1,799.3 | 1,860.1 | 1,906.3 |
| Associates/JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (incl. intangibles) | | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 1,312.8 | 1,738.7 | 1,799.3 | 1,860.1 | 1,906.3 |
| Total assets | 1,369.2 | 1,802.9 | 1,856.4 | 1,917.1 | 1,963.3 |
| Current liabilities | | | | | |
| | 18.2 | 16.8 | 16.8 | 16.8 | 16.0 |
| Trade payables | 0.1 | 0.5 | 0.5 | 0.5 | 16.8 0.5 |
| Borrowings | | | | | |
| Provision for taxation | 0.0 | 0.0 | 0.0 | 0.0 1.7 | 0.0 |
| Other | 0.9 | 1.7 | 1.7 | | 1.7 |
| Total | 19.2 | 19.0 | 19.0 | 19.0 | 19.0 |
| Non-current liabilities | | | | | |
| Borrowings | 458.4 | 667.2 | 667.2 | 667.2 | 667.2 |
| Other | 39.5 | 52.6 | 52.6 | 52.6 | 52.6 |
| Total | 497.9 | 719.8 | 719.8 | 719.8 | 719.8 |
| Total liabilities | 517.1 | 738.8 | 738.8 | 738.8 | 738.8 |
| | | | | | |
| Net assets | 852.1 | 1,064.1 | 1,117.6 | 1,178.3 | 1,224.5 |
| Unitholders' funds | 852.1 | 1,064.1 | 1,117.6 | 1,178.3 | 1,224.5 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total equity | 852.1 | 1,064,1 | 1,117.6 | 1,178.3 | 1,224.5 |
| Total liabilities and equity | 1,392.2 | 1,802.9 | 1,856.4 | 1,917.1 | 1,963.3 |

Source: Company data, Maybank Kim Eng

Fig 33: Cashflows

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|--|---------|-----------------|---------------|---------------|---------------|
| 2 | | | | | |
| Operating activities | | | | | |
| EBIT | 51.9 | 81.3 | 94.4 | 97.5 | 99.9 |
| Other adjustments | 3.2 | 7.1 | 18.6 | 5.9 | 6.1 |
| Op. income before chg in WC | 55.1 | 88.4 | 113.0 | 103.4 | 106.0 |
| Changes in working capital | (1.9) | (8.3) | 0.0 | 0.0 | 0.0 |
| Cash generated from operations | 53.2 | 80.2 | 113.0 | 103.4 | 106.0 |
| Taxes paid | (9.4) | (17.5) | (24.2) | (24.4) | (25.0) |
| Net cashflows from operations | 43.8 | 62.6 | 88.9 | 79.1 | 81.0 |
| Investing activities | | | | | |
| Purchase of properties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net (purchase)/sale of investments | (434.3) | (399.3) | (20.0) | 0.0 | 0.0 |
| Maint. capex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest income received | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cashflows from investing activities | (434.3) | (399.1) | (19.8) | 0.2 | 0.2 |
| Financing activities | | | | | |
| • | 280.4 | 192.6 | 0.0 | 0.0 | 0.0 |
| Issue of units, net of costs Distribution to unitholders | (42.5) | | | | |
| | 163.6 | (58.7) 207.7 | (76.2) 0.0 | (79.3) 0.0 | (81.3) 0.0 |
| Changes in borrowings | 0.0 | 0.0 | 0.0 | 0.0 | |
| Interest paid Changes in minorities | 0.0 | | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 0.0 |
| | | (0.7) | | | |
| Cashflows from financing activities | 401.7 | 340.9 | (76.2) | (79.3) | (81.3) |
| Net change in cash & cash equiv | 11.2 | 4.4 | (7.1) | 0.0 | 0.0 |
| Cash at beginning of year | 38.4 | 49.7 | 54.1 | 47.0 | 47.0 |
| Adjustments (FX) | 0.1 | (0.0) | 0.0 | 0.0 | 0.0 |
| Cash at end of year | 49.7 | 54.1 | 47.0 | 47.0 | 47.0 |

Source: Company data, Maybank Kim Eng

6. Valuation

6.1 MUST as offshore REIT in S-REITs context.

We look at office S-REITs as a possible comparison, given the similar asset class - they trade on average at 5.6% 2019-2020E dividend yields, and 0.9x P/BV. While being a similar asset class, there is a substantial difference in the fundamental outlooks for the Singapore and US office markets. We estimate the strong US office market should see DPU for MUST grow 3% from FY19-20E, while DPU for its Singapore counterparts is likely be flat, following the 15% rally in Grade A office rents in 2018. We expect MUST to trade at a slight discount to its peers despite the stronger DPU growth, with an implied FY19E dividend yield of 6.0% at our TP, given its foreign assets' listing status. We believe this valuation is reasonable as S-REITs with offshore assets trade at about 25-50bps wider than their onshore counterparts, with this discount owing to Singapore investors' lesser familiarity with the asset classes.

6.2 MUST vs other US REITs

We also compare MUST to other US office REITs given similar underlying exposures. US office REITs trade at 3.9% 2019E and 3.7% 2020E dividend yields, representing a 120-140bps spread to the 10-year US government bond yield of 2.54%, and 2.1x P/BV. There is an accounting difference between S-REITs and US REITs, as US REITs are required to depreciate assets (buildings) and amortize various non-cash expenses, while S-REITs report on a cash-basis. In our view, the adjusted funds from operations (AFFO) yield could therefore provide a better comparison. We estimate our TP implies a FY19-20E (AFFO) yield of 4.3%/4.6% for MUST, 70-90bps wider than the average for US office REITs, given the much smaller size of its portfolio and its slightly different geographic exposure (most US REITs have larger exposures to East Coast cities).

Fig 34: DDM-based valuation

| Period | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Distributions (SGD) | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 |
| PV of distributions (SGD) | 0.06 | 0.06 | 0.05 | 0.05 | 0.05 | 0.04 | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 |
| Sum of PV (SGD) | 0.44 | | | | | | | | | | |
| Terminal value (SGD) | 0.56 | | | | | | | | | | |
| Equity value (SGD) | 1.00 | | | | | | | | | | |
| | | | | | | | | | | | |
| Key assumptions | | | | | | | | | | | |
| Cost of equity (%) | 7.7 | | | | | | | | | | |
| Beta (x) | 0.65 | | | | | | | | | | |
| Market risk premium (%) | 6.5 | | | | | | | | | | |
| Risk free rate (%) | 3.5 | | | | | | | | | | |
| Terminal growth (%) | 2.0 | | | | | | | | | | |

Source: Maybank Kim Eng

We have applied a beta of 0.65x in our valuation model. This is close to the midpoint of the 0.61x beta average for the Singapore office S-REITs, which range from 0.44-0.70x and the 0.73x beta average for the US-listed office REITs, which range from 0.59-0.89x.

Fig 35: Cost of capital for peers

| Company | MC | ADTV | Beta | COE |
|------------------------------|---------|---------|------|-----|
| | (USD m) | (USD m) | (x) | (%) |
| Singapore office S-REITs | | | | |
| CapitaLand Comm. Trust | 5,419 | 18.3 | 0.44 | 5.6 |
| Keppel REIT | 3,180 | 6.8 | 0.69 | 7.4 |
| Suntec REIT | 3,875 | 9.2 | 0.69 | 7.4 |
| Frasers Comm. Trust | 975 | 2.1 | 0.55 | 6.6 |
| OUE Comm. Trust | 1,070 | 0.4 | 0.70 | 7.9 |
| Average | 14,519 | 36.7 | 0.61 | 7.0 |
| US-listed office REITs | | | | |
| Boston Properties | 20,536 | 91 | 0.82 | 8.3 |
| Vornado Realty Trust | 12,873 | 66 | 0.75 | 7.8 |
| Alexandria Real Estate | 16,058 | 96 | 0.74 | 7.7 |
| SL Green Realty | 7,762 | 55 | 0.89 | 8.8 |
| Kilroy Realty | 7,712 | 41 | 0.78 | 8.0 |
| Douglas Emmett | 6,899 | 34 | 0.71 | 7.5 |
| Hudson Pacific Properties | 5,356 | 29 | 0.75 | 7.8 |
| Highwoods Properties | 4,814 | 33 | 0.74 | 7.7 |
| Cousins Properties | 4,223 | 45 | 0.70 | 7.5 |
| Equity Commonwealth | 4,003 | 22 | 0.59 | 6.7 |
| Paramount Group | 3,372 | 16 | 0.72 | 7.6 |
| PS Business Parks | 4,253 | 12 | 0.64 | 7.0 |
| Corporate Office Properties | 3,033 | 19 | 0.64 | 7.0 |
| Brandywine Realty Trust | 2,744 | 29 | 0.81 | 8.2 |
| Piedmont Office Realty Trust | 2,572 | 18 | 0.68 | 7.2 |
| Mack-Cali Realty | 2,021 | 11 | 0.76 | 7.8 |
| Franklin Street Properties | 789 | 3 | 0.68 | 7.3 |
| City Office | 441 | 3 | 0.70 | 7.5 |
| Average | 109,462 | 624 | 0.73 | 7.6 |

COE = Cost of equity.

Source: Bloomberg, Maybank Kim Eng

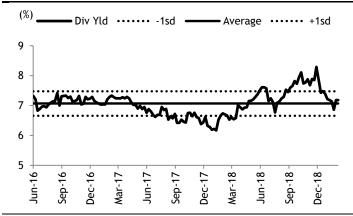
Fig 16: Valuation comparison

| Company | Price | MC | BVPS | P/BV | DP | U yield | (%) | FF | O yield | (%) | AFI | FO yield | (%) | Gearing (D/A) |
|------------------------------|-------|---------|-------|------|-----|---------|------|------|---------|------|------|----------|------|------------------|
| | (LC) | (USD m) | (LC) | (x) | 18E | 19E | 20E | 18E | 19E | 20E | 18E | 19E | 20E | (%) |
| US office S-REITs | (USD) | | (USD) | | | | | | | | | | | |
| Manulife REIT | 0.86 | 1,102 | 0.83 | 1.04 | 6.6 | 6.9 | 7.0 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 37 |
| Keppel KBS US REIT | 0.69 | 566 | 0.89 | 0.78 | 7.5 | 8.8 | 9.1 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 35 |
| Total / Average | | 1,668 | | 0.91 | 7.1 | 7.9 | 8.1 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 36 |
| Singapore office S-REITs | (SGD) | | (SGD) | | | | | | | | | | | |
| CapitaLand Comm. Trust | 1.95 | 5,419 | 1.84 | 1.06 | 4.6 | 4.6 | 4.8 | 4.5 | 4.4 | 4.8 | 4.3 | 4.4 | 4.4 | 35 |
| Keppel REIT | 1.26 | 3,180 | 1.41 | 0.89 | 4.5 | 4.6 | 4.7 | 2.9 | 3.2 | 3.3 | 2.5 | 2.8 | 2.9 | 36 |
| Suntec REIT | 1.95 | 3,875 | 2.10 | 0.93 | 5.1 | 5.1 | 5.1 | 3.3 | 3.3 | 3.6 | 3.1 | 3.1 | 3.2 | 38 |
| Frasers Comm. Trust | 1.46 | 975 | 1.53 | 0.95 | 6.7 | 6.6 | 6.6 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 28 |
| OUE Comm. Trust | 0.51 | 1,070 | 0.92 | 0.55 | 6.7 | 6.9 | 6.9 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 39 |
| Total / Average | | 14,519 | | 0.88 | 5.5 | 5.6 | 5.6 | 3.5 | 3.6 | 3.9 | 3.3 | 3.4 | 3.5 | 35 |
| | | | | | | | | | | | | | | |
| US-listed office REITs | (USD) | | (USD) | | | | | | | | | | | |
| Boston Properties | 132.9 | 20,536 | 36.8 | 3.6 | 2.9 | 3.1 | 2.8 | 5.2 | 5.6 | 5.8 | 3.6 | 4.0 | 4.4 | 54 |
| Vornado Realty Trust | 67.6 | 12,873 | 18.8 | 3.6 | 3.8 | 4.0 | 4.2 | 6.0 | 6.3 | 6.4 | 3.9 | 4.2 | 4.2 | 57 |
| Alexandria Real Estate | 142.5 | 16,058 | 65.6 | 2.2 | 2.8 | 2.9 | 2.9 | 4.9 | 5.2 | 5.3 | 4.0 | 4.3 | 4.3 | 38 |
| SL Green Realty | 90.9 | 7,762 | 67.8 | 1.3 | 3.7 | 3.9 | 4.2 | 7.6 | 7.7 | 8.0 | 5.0 | 4.9 | 5.9 | 44 |
| Kilroy Realty | 76.4 | 7,712 | 39.0 | 2.0 | 2.4 | 2.5 | 2.7 | 4.8 | 5.3 | 5.7 | 3.4 | 4.0 | n.a. | 38 |
| Douglas Emmett | 40.5 | 6,899 | 14.1 | 2.9 | 2.6 | 2.7 | 2.9 | 5.2 | 5.4 | 5.7 | 4.1 | 4.3 | n.a. | 50 |
| Hudson Pacific Properties | 34.7 | 5,356 | 23.0 | 1.5 | 3.0 | 3.2 | 3.0 | 5.8 | 6.3 | 7.3 | 3.5 | 4.0 | n.a. | 37 |
| Highwoods Properties | 46.5 | 4,814 | 21.4 | 2.2 | 4.1 | 4.2 | 4.4 | 7.4 | 7.7 | 8.0 | 4.7 | 4.9 | 4.9 | 45 |
| Cousins Properties | 10.0 | 4,223 | 6.6 | 1.5 | 2.9 | 3.1 | 3.6 | 7.2 | 7.2 | 7.7 | 5.9 | 5.8 | 6.2 | 26 |
| Equity Commonwealth | 32.9 | 4,003 | 25.2 | 1.3 | 0.0 | n.a. | n.a. | 1.7 | 1.8 | 1.8 | n.a. | n.a. | n.a. | 8 |
| Paramount Group | 14.4 | 3,372 | 17.2 | 0.8 | 2.9 | 3.0 | 3.2 | 6.5 | 6.7 | 6.5 | 3.2 | 3.4 | n.a. | 41 |
| PS Business Parks | 155.4 | 4,253 | 29.4 | 5.3 | 2.9 | 3.2 | 3.3 | 4.3 | 4.4 | 4.5 | 3.4 | 3.5 | n.a. | 0 |
| Corporate Office Properties | 27.5 | 3,033 | 14.4 | 1.9 | 4.1 | 4.2 | 4.8 | 7.4 | 7.8 | 8.2 | 5.7 | 6.0 | 6.7 | 50 |
| Brandywine Realty Trust | 15.6 | 2,744 | 10.3 | 1.5 | 4.8 | 5.1 | 5.4 | 9.0 | 9.4 | 10.0 | 6.7 | 7.0 | 7.0 | 49 |
| Piedmont Office Realty Trust | 20.5 | 2,572 | 13.6 | 1.5 | 4.2 | 4.3 | 5.0 | 8.7 | 9.0 | 9.4 | 5.6 | 6.8 | n.a. | 47 |
| Mack-Cali Realty | 22.4 | 2,021 | 16.5 | 1.4 | 3.6 | 3.6 | 3.6 | 7.5 | 7.6 | 7.4 | 3.2 | 4.3 | n.a. | 55 |
| Franklin Street Properties | 7.4 | 789 | 7.8 | 0.9 | 4.9 | 4.9 | - | 11.6 | 11.8 | n.a. | 6.1 | 5.7 | n.a. | 52 |
| City Office | 11.2 | 441 | 6.5 | 1.7 | 8.4 | 8.4 | - | 10.3 | 11.0 | n.a. | 7.9 | 8.7 | n.a. | 59 |
| Total / Average | | 109,462 | | 2.1 | 3.6 | 3.9 | 3.7 | 6.7 | 7.0 | 6.7 | 4.7 | 5.0 | 5.5 | 42 |

AFFO = Adjusted FFO.

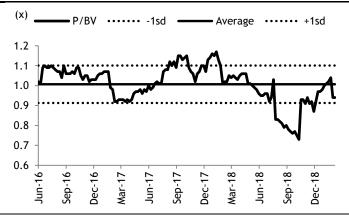
Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Fig 37: DPU yields back to their IPO levels and could be compressed further as the Fed stays patient on its rate hikes



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 38: P/BV undemanding at -1SD below historical average and given improving rental growth outlook for its assets



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 39: S-REITs' valuation comparison

| Company | Rating | Price | TP | Upside | Yield | Total return | MC | ADTV | Free Float | BVPS | P/BV | D | ividend | d yield | (%) | Gearing (D/A) |
|--|--------|--------------|-------|-------------|------------|-----------------|------------|------------|---------------|-------|---------------------|------|--------------------|--------------------|------------|------------------|
| | | (SGD) | (SGD) | (%) | (%) | | | (SGD m) | (%) | (SGD) | (x) | 17 | 18 | 19E | 20E | (%) |
| Retail | | | | | | | 15.1 | 30.6 | | | 1.04 | 5.5 | 5.6 | 5.7 | 5.8 | 31 |
| Capita Mall Trust (CMT) | Hold | 2.38 | 2.25 | (5.5) | 4.8 | (0.6) | 8.8 | 25.5 | 65 | 2.02 | 1.18 | 4.7 | 4.8 | 4.8 | 5.2 | 34 |
| Frasers Ctr Trust (FCT) | Buy | 2.31 | 2.55 | 10.4 | 5.7 | 16.1 | 2.1 | 2.8 | 58 | 2.08 | 1.11 | 5.1 | 5.5 | 5.7 | 5.6 | 29 |
| Starhill Global (SGREIT) | Hold | 0.70 | 0.65 | (7.1) | 6.8 | (0.3) | 1.5 | 1.5 | 63 | 0.90 | 0.78 | 7.0 | 6.5 | 6.8 | 6.8 | 36 |
| SPH REIT | Hold | 1.03 | 1.02 | (1.0) | 5.6 | 4.6 | 2.7 | 0.9 | 25 | 0.94 | 1.09 | 5.4 | 5.4 | 5.6 | 5.7 | 26 |
| Retail & Office | | | | | | | 10.6 | 26.7 | | | 1.09 | 5.0 | 5.1 | 5.1 | 5.2 | 36 |
| Suntec REIT (SUN) | Hold | 1.95 | 1.94 | (0.5) | 5.2 | 4.7 | 5.2 | 12.4 | 62 | 2.11 | 0.92 | 5.1 | 5.2 | 5.2 | 5.4 | 38 |
| Mapletree Comm. (MCT) | Hold | 1.85 | 1.60 | (13.5) | 5.0 | (8.5) | 5.3 | 14.3 | 66 | 1.48 | 1.25 | 4.9 | 4.9 | 5.0 | 5.1 | 35 |
| Office | | | | (/ | | () | 14.4 | 37.1 | | | 0.90 | 6.2 | 6.2 | 6.2 | 6.1 | 35 |
| CapitaLand Comm. (CCT) | Hold | 1.95 | 1.80 | (7.7) | 4.6 | (3.1) | 7.3 | 24.7 | 70 | 1.84 | 1.06 | 4.4 | 4.6 | 4.6 | 4.6 | 35 |
| Keppel REIT (KREIT) | Hold | 1.26 | 1.19 | (5.6) | 5.1 | (0.5) | 4.3 | 9.1 | 52 | 1.40 | 0.90 | 4.5 | 5.0 | 5.1 | 5.2 | 36 |
| Frasers Comm. (FCOT) | NR | 1.46 | 1.17 | (3.0) | J. 1 | (0.5) | 1.3 | 2.8 | 74 | 1.58 | 0.92 | 6.7 | 6.6 | 6.6 | 6.6 | 28 |
| OUE Comm. (OUECT) | NR | 0.51 | | | | | 1.4 | 0.5 | 24 | 0.71 | 0.71 | 9.3 | 8.6 | 8.4 | 7.9 | 39 |
| Industrial | 1111 | 0.51 | | | | | 24.7 | 65.6 | | 0.71 | 1,13 | 6.8 | 6.8 | 7.0 | 7.0 | 37 |
| Ascendas REIT (AREIT) | Buy | 2.86 | 2.95 | 3.1 | 5.8 | 8.9 | 8.9 | 30.7 | 81 | 2.09 | 1.37 | 5.6 | 5.7 | 5.8 | 6.0 | 37 |
| Mapletree Ind. (MINT) | Buy | 2.06 | 2.20 | 6.8 | 6.5 | 13.3 | 4.2 | 8.4 | 68 | 1.48 | 1.39 | 5.7 | 6.0 | 6.5 | 6.8 | 36 |
| Mapletree Log. (MLT) | Hold | 1.43 | 1.30 | (9.1) | 5.6 | (3.5) | 5.2 | 16.8 | 68 | 1.13 | 1.27 | 5.4 | 5.5 | 5.6 | 5.7 | 39 |
| Cache Logistics Trust | Buy | 0.72 | 0.85 | 18.1 | 8.7 | 26.8 | 0.8 | 1.5 | 90 | 0.76 | 0.95 | 9.2 | 8.6 | 8.7 | 9.1 | 36 |
| AIMS AMP (AAREIT) | Buy | 1.41 | 1.50 | 6.4 | 7.5 | 13.9 | 1.0 | 0.4 | 71 | 1.36 | 1.03 | 6.9 | 7.5 | 7.5 | 7.5 | 34 |
| Keppel DC REIT (KDCREIT) | NR | 1.46 | 1.30 | 0.4 | 7.5 | 13.7 | 2.0 | 5.4 | 75 | 1.07 | 1.37 | 4.9 | 5.2 | 5.5 | 5.8 | 31 |
| ESR REIT | NR | 0.54 | | | | | 1.7 | 1.8 | 58 | 0.47 | 1.15 | 7.2 | 7.4 | 7.6 | 8.0 | 42 |
| Soilbuild BS REIT | NR | 0.60 | | | | | 0.6 | 0.4 | 66 | 0.47 | 0.95 | 9.5 | 8.4 | 8.4 | n.a. | 39 |
| Sabana SC Ind. REIT | NR | 0.42 | | | | | 0.4 | 0.4 | 68 | 0.57 | 0.72 | n.a. | n.a. | n.a. | n.a. | 37 |
| Hospitality & Residential | INIX | 0.42 | | | | | 9.5 | 9.7 | 00 | 0.37 | 0.72 | 6.3 | 6.4 | 6.6 | 6.9 | 36 |
| | Hold | 1.18 | 1.20 | 1.7 | 6.2 | 7.9 | 2.6 | 3.5 | 55 | 1.22 | 0.97 | 6.3 | 6.1 | 6.2 | 6.3 | 37 |
| Ascott Res. Trust (ART) CDL HT (CDLHT) | Hold | 1.63 | 1.80 | 10.4 | 5.9 | 16.3 | 2.0 | 3.0 | 63 | 1.53 | 1.07 | 5.7 | 5.7 | 5.9 | 6.2 | 34 |
| , , | Buy | 0.73 | 1.00 | 10.4 | 5.9 | 10.3 | 1.3 | 0.9 | | 0.75 | 0.97 | 7.0 | 7.0 | | 8.0 | 39 |
| OUE HT (OUEHT) | NR | | 0.75 | 12.6 | 4 7 | 20.4 | | | 51 40 | 0.75 | | | 6.5 | 7.4 | | |
| Far East HT (FEHT) | Buy | 0.66 0.73 | 0.75 | 13.6 9.6 | 6.7 6.9 | 16.5 | 1.2 1.4 | 1.2 0.5 | 38 | 0.75 | 0.75 0.97 | 6.0 | 6.6 | 6.7 6.9 | 7.1 7.2 | 40 34 |
| Frasers HT (FHT) | Buy | | 0.60 | 9.0 | 0.9 | 10.5 | | 0.5 | | | | | | | | |
| Ascendas HT (AHT) Offshore REITs | NR | 0.88 | | | | | 1.0 | 26.5 | 64 | 0.98 | 0.90 0.90 | n.a. | n.a. 7.7 | n.a. 7.9 | n.a. | 33 34 |
| | D | 0.72 | 0.00 | 25.0 | 0.7 | 22.7 | 17.1 | | 24 | 0.01 | | 8.0 | | | 8.1 | |
| Sasseur REIT | Buy | 0.72 | 0.90 | 25.0 | 8.7 | 33.7 | 0.9 | 1.0 | 21 | 0.91 | 0.79 | n.a. | 8.3 | 8.7 | 8.9 | 29 |
| Mapletree Greater China | NR | 1.29 | | | | | 4.1 | 9.6 | 67 | 1.32 | 0.98 | 5.7 | 5.9 | 6.0 | 6.0 | 39 |
| CapitaLand Retail China | NR | 1.51 | | | | | 1.5 | 2.4 | 62 | 1.58 | 0.95 | 6.7 | 7.0 | 7.1 | 7.4 | 35 |
| Fortune REIT (HKD) | NR | 9.94 | | | | | 3.3 | 0.8 | 73 | 16.61 | 0.60 | 5.1 | 5.3 | 5.4 | 5.7 | 21 |
| Lippo Malls Ind. RT | NR | 0.20 | 4 00 | 44.3 | | 22.2 | 0.6 | 0.8 | 63 | 0.29 | 0.68 | 17.3 | 13.3 | 13.3 | 13.8 | 35 |
| Manulife REIT (USD) | Buy | 0.86 | 1.00 | 16.3 | 6.9 | 23.2 | 1.5 | 0.8 | 91 | 0.83 | 1.04 | 6.9 | 7.0 | 6.9 | 7.1 | 37 |
| Keppel_KBS US REIT | NR | 0.69 | | | | | 0.8 | 0.4 | 87 | 0.89 | 0.78 | n.a. | 8.7 | 9.1 | 9.2 | 35 |
| IREIT Global | NR | 0.75 | | | | | 0.5 | 0.1 | 31 | 0.75 | 0.99 | n.a. | n.a. | n.a. | n.a. | 37 |
| BHG Retail REIT | NR | 0.69 | | | | | 0.3 | 0.0 | 37 | 0.81 | 0.84 | n.a. | n.a. | n.a. | n.a. | 31 |
| Frasers Log. & Ind. (FLT) | NR | 1.16 | | | | | 2.3 | 9.1 | 73 | 0.91 | 1.28 | 6.6 | 5.9 | 6.0 | 6.0 | 36 |
| EC World REIT | NR | 0.76 | | | | | 0.6 | 0.2 | 41 | 0.87 | 0.87 | 7.8 | n.a. | n.a. | n.a. | 35 |
| Cromwell REIT (EUR) | NR | 0.49 | | | | | 1.6 | 2.3 | 43 | 0.53 | 0.92 | n.a. | 8.6 | 9.4 | 9.3 | 33 |
| Healthcare | | | | | | | 2.5 | 3.0 | | | 1.25 | 6.6 | 6.6 | 6.8 | 6.8 | 36 |
| Parkway Life REIT | NR | 2.89 | | | | | 1.7 | 1.7 | 64 | 1.88 | 1.54 | 4.6 | 4.3 | 4.5 | 4.5 | 38 |
| First REIT | NR | 1.00 | | | | | 0.8 | 1.3 | 61 | 1.03 | 0.97 | 8.6 | 8.8 | 9.0 | 9.1 | 35 |
| Total REITs | | | | | | | 94 | 199 | | | 1.00 | 6.6 | 6.7 | 6.8 | 6.9 | 35 |
| S-REIT yield spread | | | | | | | | | | | | | | 2.6 | | |
| | | | | | | | | | | | | | | | | |
| FSTREI Index SGS 10Y bond yield | | | | | | | | | | | | | | 4.7 2.1 | | |

Prices as of 21 Mar 2019. NR = Not Rated.

 ${\it Source: Bloomberg, FactSet, Companies, Maybank\ Kim\ Eng}$

Fig 20: Comparison with Keppel-KBS REIT

| REIT | | Manulife US REIT | | | Keppel-KBS US REI | Т |
|---|-------------------------|---------------------------|------------------|-------------------------|---------------------------|------------------|
| Portfolio overview | | | | | | |
| Asset value (USD m) | | 1,739 | | | 1,017 | |
| No. of properties | | 7 | | | 12 | |
| Total NLA (m sf) | | 3.7 | | | 4.0 | |
| Property type | | 2 Trophy, 5 Class A | 4 | 7 Clas | s A, 1 Class A/B, 4 | Class B |
| Land tenure | | Freehold | | | Freehold | |
| Geographical mix | No. of properties (no.) | Property value (USD m) | % of total value | No. of properties (no.) | Property value (USD m) | % of total value |
| US | 7 | 1,739 | 100.0 | 12 | 1,017 | 100.0 |
| West | 2 | 674 | 38.8 | 5 | 731 | 71.9 |
| San Francisco | | | | | | |
| Denver | | | | 1 | 126 | 12.4 |
| Salt Lake City | | | | | | |
| Los Angeles | 1 | 329 | 18.9 | | | |
| Irvine | 1 | 345 | 19.8 | | | |
| Seattle | | | | 3 | 568 | 55.8 |
| Sacramento | | | | 1 | 37 | 3.6 |
| Central | 0 | 0 | 0.0 | 4 | 202 | 19.8 |
| Dallas | | | | | | |
| San Antonio | | | | | | |
| St. Louis | | | | | | |
| Houston | | | | 2 | 118 | 11.6 |
| Austin | | | | 2 | 84 | 8.3 |
| East | 5 | 1,064 | 61.2 | 3 | 84 | 8.3 |
| Atlanta | 2 | 415 | 23.9 | 2 | 41 | 4.0 |
| Washington DC | 1 | 189 | 10.9 | | | |
| Philadelphia | | | | | | |
| Secaucus | 1 | 120 | 6.9 | | | |
| Jersey City | 1 | 341 | 19.6 | | | |
| Orlando | | | | 1 | 44 | 4.3 |
| Tenancy | | | | | | |
| WALE (years) | | 5.8 | | | 4.0 | |
| Lease expiry profile (%) | | By NLA | By Income | | By NLA | By Income |
| 2019 | | 10.1 | 7.3 | | 12.5 | 14.6 |
| 2020 | | 8.4 | 8.0 | | 15.8 | 16.0 |
| 2021 | | 7.1 | 7.3 | | 15.2 | 16.1 |
| 2022 | | 16.6 | 16.7 | | 9.9 | 8.6 |
| 2023 | | 9.2 | 9.6 | | 16.3 | 16.3 |
| 2024 and beyond | | 48.7 | 51.1 | | 30.3 | 31.8 |
| Occupancy (%) | | 96.7 | 31.1 | | 91.6 | 31.0 |
| No. of tenants | | 116 | | | 339 | |
| Top 10 tenants as % of total | | 44 | | | 21 | |
| Capital management | | | | | | |
| Gross borrowings (USD m) | | 671 | | | 374 | |
| Aggregate leverage (%) | | 37.2 | | | 35.1 | |
| Average interest cost (%) | | 3.27 | | | 3.53 | |
| Average interest cost (%) Average debt tenor (years) | | 2.7 | | | 3.7 | |
| Debt expiry profile (%) | | 2.7 | | | 3.7 | |
| 2019 | | 16 | | | 1 | |
| 2020 | | 10 | | | 1 | |
| | | | | | | |
| 2021 | | 32 | | | 39 39 | |
| 2022 | | 26 | | | | |
| 2023 | | 16 | | | 21 | |
| 2024 and beyond | | 0 | | | 0 | |
| % of debt fixed | | 100.0 | | | 80.4 | |

As of end-Dec 2018

Source: Company data, Maybank Kim Eng

- Ownership of the manager. MUST's manager is fully owned by its sponsor, Manulife Group.
- Fee structure. MUST has a similar fee structure to KORE. Its asset manager will receive 10.0% of its distributable income as base fees and 25.0% of its DPU increases as performance fees. Unlike KORE, which outsources property management to third parties, such as Cushman & Wakefield and JLL, property management for MUST is handled by a wholly-owned subsidiary of its sponsor.

Fig 41: Asset management and fee structures - comparison with KORE and office S-REITs

| REIT | MUST | Keppel-KBS (KORE) | ССТ | FCOT | KREIT | OUECT | SUN |
|---|--|-------------------------------------|--|------------------------------------|--|--|-----------------------------------|
| Ownership of manager | Manulife Group | Keppel: 50%, KBS: 50% | CapitaLand | Frasers Property | Keppel | OUE | ARA |
| Interest in REIT | 8.0% | Keppel: 7.0%, KBS: 7.0% | 30.1% | 25.5% | 43.6% | 55.7% | |
| Asset management fee | | | | | | | |
| Base fee | 10% of distributable income | 10% of distributable income | 0.1% of AUM | 0.5% of AUM | 0.5% of AUM | 0.3% of AUM | 0.3% of AUM |
| Performance fee | 25% of diff in DPU | 25% of diff in DPU | 5.25% of NPI | 3.5% of NPI | 3.0% of NPI | 25% of diff in DPU | 4.5% of NPI |
| Acquisition fee | 1.0% of value or 0.75% if from related entities | 1.0% of value | 1.0% of value | 1.0% of value | 1.0% of value | 1.0% of value or 0.75% if from related entities | 1.0% of value |
| Divestment fee | 0.5% of value | 0.5% of value | 0.5% of value | 0.5% of value | 0.5% of value | 0.5% of value | 0.5% of value |
| Development management fee | 3.0% -5.0% of project cost | 3.0% of project cost | - | - | - | - | - |
| Trustee fees | <0.1% of AUM min SGD10k pm. | <0.015% of AUM min SGD14k pm. | <0.1% of AUM min SGD8k pm. | <0.03% of AUM min SGD36k pa. | 0.03% of AUM payable quarterly | <0.02% of AUM min SGD15k pm. | <0.25% of AUM min SGD9k pm. |
| Property management fee | 2.5%-3.0% of gross revenue | 1.5%-3.0% of gross revenue | 3.0% of NPI (except for 21 Collyer Quay at 0.25% of NPI) | J | 3.0% of gross revenue + leasing commissions | 2.0% of gross revenue + 2.0% of NPI + 0.5% of NPI for lease management fee | 3.0% of gross revenue |
| Asset management fees received in units | FY2018: 100% | FY2018: 100% | FY2018: 100% | FY2018: 100% | | | |

Source: Company data, Maybank Kim Eng

7. Risks

REIT structure

The efficient tax structure is primarily dependent on the ability of the parent-US REIT and the sub-US REITs in maintaining their US REIT status. MUST may otherwise be subject to taxes on undistributed income, excise taxes, state or local income, property and transfer taxes, which could adversely impact its business, financial condition, cash flows, and REIT distributions. To qualify, the parent US REIT must have at least 95% of its gross income from qualifying sources and 75% of its assets in real estate. In addition, no more than 50% of its units may be owned by five or fewer individuals. It is also required to distribute at least 90% of annual US real estate investment trust taxable income in order to be taxed as a US REIT.

Unit ownership limits

Unitholders are prohibited from owning, directly or indirectly, in excess of 9.8% of the outstanding units in MUST, so as to ensure that the parent-US REIT and sub-US REITs maintain their US REIT status. Breaches of this limit will result in excess units being automatically forfeited. Unitholders must complete documentation requirements to be exempted from withholding taxes (they must file the IRS Form W-8 and US Tax Compliance Certificate to qualify for the portfolio interest exemption, failing which could result in withholding taxes of 30% on distributions).

Changes in tax regimes

Potential changes to the Singapore, US or Barbados tax regimes affect the amount of tax payable by MUST. This is a key risk as distributions to investors are supported by a fairly small amount of cash taxes. The US IRS released proposed regulations on 20 Dec 2018 that clarified the Dec 2017 tax reform and application of Sec 267A, with final regulations expected by Jun 2019. Meanwhile, MUST's tax counsellors have advised that there are no issues relating to using the current structure, with the Barbados layer implying an effective tax leakage of about 1.5%. However, a more tax efficient structure that does not require the Barbados entities is being explored. This revision, which aims to eliminate the tax leakage, is however subject to approval by Singapore's IRAS.

Changes in the US office sector outlook

Any deterioration in US macroeconomic conditions on the back of an increase in the unemployment rate could result in slower demand for office space, lower occupancy rates and weaker property income. These could negatively impact tenants' abilities to pay rents, hence raising counterparty risks, and the REIT's ability to maintain DPUs. These events could also cause the market value of its properties to decline, and hence reduce access to capital markets, affecting the REIT's ability to refinance debts and obligations. On the other hand, stronger-than-expected economic growth conditions could see upside risks to both our earnings and valuation estimates.

Capex needs

Large capex needs may be limited as: (1) Michelson and Phipps were completed relatively recently in 2007 and 2010 respectively: and (2) Peachtree and Penn, while completed in 1991 and 1964, were refurbished between 2012 and 2018. MUST has budgeted up to USD8.0m in AEI works for Figueroa, which is expected to be completed in 4Q 2019 and USD12.0m for Exchange, expected to be completed in 4Q 2019/ 1Q 2020. While we have not factored in additional AEI into our forecasts, future AEIs could however affect operations and occupancies. Furthermore, should MUST

not be able to fund such initiatives, the attractiveness, marketability and operating efficiency could be adversely affected. In our forecasts, we assume that all capex will be funded with new debt. As such, its gearing could increase quickly if capex needs rise faster than expected. To prevent sharp escalations in leverage, the managers may have to lower distributions to unitholders.

Tenant concentration

Its portfolio tenant profile is concentrated in the legal and financial institution sectors, which contributed about 20-22% of its gross rental income as of end-Dec 2018, and hence a decline in these sectors could affect the REIT's occupancies and distributions.



8. Appendix: Portfolio details

Fig 42: Portfolio summary

| S/I | N Property | Primary market | State | Completion | Last refurbishment | NLA | Land tenure | Investment class | Appraised value |
|-----|------------|----------------------|-----------------|------------|-----------------------|-----------|-------------|------------------|-----------------|
| | | | | (year) | (year) | (000 sf) | (type) | (type) | (USD m) |
| 1 | Figueroa | Downtown LA | Los Angeles | 1991 | 4Q 2019 | 702,861 | Freehold | Α | 329.3 |
| 2 | Michelson | Irvine Orange County | Irvine | 2007 | - | 532,663 | Freehold | Trophy | 345.0 |
| 3 | Peachtree | Midtown Atlanta | Atlanta | 1991 | 2012-18 | 557,560 | Freehold | Α | 203.7 |
| 4 | Plaza | Meadowlands | Secaucus | 1985 | 2015-16 | 461,525 | Freehold | Α | 119.8 |
| 5 | Exchange | Hudson Waterfront | Jersey City | 1988 | 4Q 2019/1Q 2020 | 732,169 | Freehold | Α | 340.7 |
| 6 | Penn | Washington D.C. | Washington D.C. | 1964 | 2012-18 | 277,315 | Freehold | Α | 189.0 |
| 7 | Phipps | Buckhead Atlanta | Atlanta | 2010 | - | 475,199 | Freehold | Trophy | 211.2 |
| | | | | | | 3,736,983 | | | 1,739 |

Company data, as of end-Dec 2018



1. Figueroa

Figueroa is a 35-storey Class A office building with 702,861 sf of NLA, located in the South Park district of Downtown Los Angeles, two blocks away from a variety of entertainment venues. Onsite amenities include two signature water features, a full-service restaurant, a coffee shop and an adjacent car park with 841 spaces. The property is accessible to the Los Angeles freeway system and the 7th Street metro station, and has a courtesy shuttle bus that travels throughout the surrounding downtown. It has been developed and owned by the sponsor since 1991, and has recently undergone energy and operating efficiency upgrades designed to reduce property-related expenses.

| Figueroa | | | | |
|----------------------|--------------------|---------------------------------------|-------|--|
| Address | 865 S. Figueroa St | WALE, by NLA (years) | 4.6 | |
| Market | Los Angeles, CA | No. of tenants (no.) | 28 | |
| Investment class | Α | Occupancy (%) | 93.9 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 41.3 | |
| Completion year | 1991 | Gross revenue, 2018 (USD m) | 29.9 | |
| Last refurbishment | - | NPI, 2018 (USD m) | 16.1 | |
| NLA ('000 sf) | 703 | Valuation (USD m) | 329.3 | |
| Parking stalls (no.) | 841 | | | |

| | expiry pro end-Jun 2 | ofile by N 2018) | LA | | | | Top tenants (as of 2017 annual report) | | |
|-------|-------------------------|---------------------|------|------|------|--------|--|---------------------|--------------------------------|
| 60(%) | | | | | | 48.1 | Tenant | Sector | % of gross rental income |
| 50 - | | | | | | | TCW Group | Finance & Insurance | 27.3 |
| 40 - | | | | | | | Quinn Emanuel Trial Lawyers | Legal | 19.4 |
| - | | | | | 30.4 | | Allen Matkins | Legal | 8.6 |
| 30 - | | | | | | | | | |
| 20 - | | | | 13.0 | | | | | |
| 10 - | 3.2 | 2.2 | 3.1 | | | | | | |
| 0 \ | | | | | | | | | |
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & | | | |
| | | | | | | beyond | Top 3 tenants | | 55.3 |





Source: Company data



2. Michelson

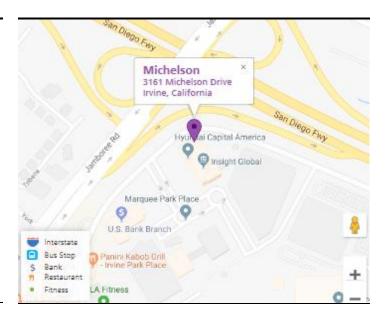
Michelson is a 19-storey, high-rise Trophy office building with almost 532,663 sf of NLA, located in Irvine, Orange County, within the Greater Los Angeles market. Onsite amenities include a cafe and penthouse sky garden and a large car park with 2,744 parking spaces. The property is surrounded by hotels, high-end apartments and restaurants, and has been owned and managed by the sponsor since its acquisition in 2012.

| Michelson | | | | |
|----------------------|-------------------|---------------------------------------|-------|--|
| Address | 3161 Michelson Dr | WALE, by NLA (years) | 3.4 | |
| Market | Irvine, CA | No. of tenants (no.) | 15 | |
| Investment class | Trophy | Occupancy (%) | 96.0 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 51.8 | |
| Completion year | 2007 | Gross revenue, 2018 (USD m) | 29.0 | |
| Last refurbishment | - | NPI, 2018 (USD m) | 20.3 | |
| NLA (000 sf) | 533 | Valuation (USD m) | 345.0 | |
| Parking stalls (no.) | 2,744 | | | |

| Lease e | expiry pro nd-Jun 2 | ofile by NI 2018) | LA | | | | Top tenants (as of 2017 annual repo | ort) | |
|-------------------|------------------------|----------------------|------|------|------|------------------|--|----------------------------------|--------------------------------|
| 35 ^(%) | | 30.4 | | | | 32.8 | Tenant | Sector | % of gross rental income |
| | | | | | 25.7 | | Hyundai Motor Finance | Finance & Insurance | 24.9 |
| 25 - | | | | | | | Gibson Dunn | Legal | 13.8 |
| 20 - | | | | | | | LA Fitness | Arts, Entertainment & Recreation | 13.2 |
| 15 - 10 - | | | 10.2 | | | | | | |
| 5 - | 0.0 | | | 0.9 | | | | | |
| 3 1 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & beyond | | | |
| | | | | | | beyond | Top 3 tenants | | 51.9 |









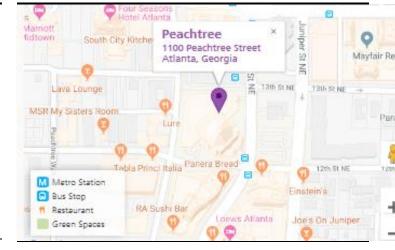
3. Peachtree

Peachtree is a 27-storey high-rise, Class A office building with over 557,560 sf of NLA and located in a prominent location on Peachtree Street within the Midtown submarket of metropolitan Atlanta. Built in 1991, the octagonal-shaped building has granite architectural panels interlaid with dark grey reflective glass exteriors. The building's amenities include a high-end seafood restaurant, a sandwich cafe, news and sundries shop, a brand new fitness centre and a large conference centre. It is connected to an adjacent car park with 1,221 parking spaces, which equals to a parking ratio of 2.2 parking spaces per 1,000 sf.

| Peachtree | | | | |
|----------------------|-------------------|---------------------------------------|-------|--|
| Address | 1100 Peachtree St | WALE, by NLA (years) | 4.9 | |
| Market | Atlanta, GA | No. of tenants (no.) | 25 | |
| Investment class | A | Occupancy (%) | 93.7 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 34.0 | |
| Completion year | 1991 | Gross revenue, 2018 (USD m) | 19.7 | |
| Last refurbishment | - | NPI, 2018 (USD m) | 12.6 | |
| NLA (000 sf) | 558 | Valuation (USD m) | 203.7 | |
| Parking stalls (no.) | 1,221 | | | |

| Lease expiry | profile by NL | -A | | | | Top tenants | | |
|-------------------|---------------|------|------|------|--------|--------------------------|-------------------------|--------------------------------|
| (as of end-Ji | ın 2018) | | | | | (as of 2017 annual repor | t) | |
| 80 ^(%) | | | | | 70.3 | Tenant | Sector | % of gross rental income |
| · | | | | | | Kilpatrick Townsend | Finance & Insurance | 42.7 |
| 60 - | | | | | | IDI Logistics | Transport & Warehousing | 9.1 |
| 50 - | | | | | | Grant Thornton LLP | Accounting | 8.4 |
| 40 - | | | | | | | | |
| 30 - | | | | | | | | |
| 20 - | | 9.7 | | 11.3 | | | | |
| 10 0.0 | 4.1 | 7 | 4.6 | | | | | |
| 201 | 8 2019 | 2020 | 2021 | 2022 | 2023 & | | | |
| | | | | | beyond | Top 3 tenants | | 60.2 |





Source: Company data



4. Plaza

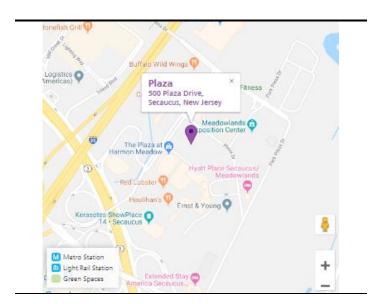
Plaza is a 11-storey Class A office building with 461,525 sf of NLA, located in Secaucus, New Jersey. The property underwent major refurbishment in 2015 and 2016, with improvements to the amenities and substantial upgrades to the finishes and grounds. Onsite amenities include a 5-storey atrium lobby, a café and lounge, executive conference centre, high-end fitness centre and building-wide Wi-Fi connectivity.

| Plaza | | | | |
|----------------------|----------------------|---------------------------------------|-------|--|
| Address | 500 Plaza Dr | WALE, by NLA (years) | 7.4 | |
| Market | Secaucus, NJ | No. of tenants (no.) | 7 | |
| Investment class | A | Occupancy (%) | 98.9 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 30.1 | |
| Completion year | 1985 | Gross revenue, 2018 (USD m) | 15.4 | |
| Last refurbishment | 2015-16 | NPI, 2018 (USD m) | 8.8 | |
| NLA (000 sf) | 462 | Valuation (USD m) | 119.8 | |
| Parking stalls (no.) | 1,474 (shared space) | | | |

| | | rofile by I | NLA | | | | Top tenants | | |
|-------------------|---------|-------------|------|------|------|--------|--------------------------|---------------------|--------------------------------|
| as of | end-Jun | 2018) | | | | | (as of 2017 annual repor | t) | |
| 80 ^(%) | | | | | | 75.2 | Tenant | Sector | % of gross rental income |
| 1 | | | | | | | The Children's Place | Retail | 43.3 |
| 50 - | | | | | | | Quest Diagnostics | Healthcare | 28.1 |
| 50 - | | | | | | | AXA Advisors | Finance & Insurance | 22.4 |
| 10 - | | | | | | | | | |
| 0 - | | | 22.1 | | | | | | |
| 20 - | | | | | | | | | |
| 0 - | 0.0 | 0.0 | | 0.0 | 2.7 | | | | |
| U | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & | | | |
| | | | | | | beyond | Top 3 tenants | | 93.8 |







5. Exchange

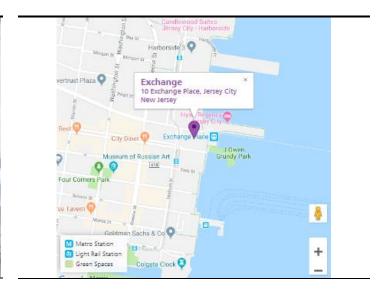
Exchange is a 30-storey Class A office building with 732,169 sf of NLA, located in Jersey City, New Jersey, on the Hudson River Waterfront. With its glass façade, bowed front and tall spire, the property is one of the most recognisable buildings in the district. The Hudson River waterfront offers a 'live, work, play' environment, with around-the-clock amenities, street life, and recently constructed residential developments. Various facilities are available to the tenants of the property, including a newsstand, coffee house and on-site food service options, as well as in-building parking located on the second to sixth floors with a total of 467 parking spaces.

| Exchange | | | | |
|----------------------|-------------------|---------------------------------------|-------|--|
| Address | 10 Exchange Place | WALE, by NLA (years) | 6.1 | |
| Market | Jersey City, NJ | No. of tenants (no.) | 25 | |
| Investment class | Α | Occupancy (%) | 97.7 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 40.4 | |
| Completion year | 1988 | Gross revenue, 2017 (USD m) | 31.9 | |
| Last refurbishment | 4Q 2019/1Q 2020 | NPI, 2017 (USD m) | 21.1 | |
| NLA (000 sf) | 732 | Valuation (USD m) | 340.7 | |
| Parking stalls (no.) | 467 | | | |
| NLA (000 sf) | 732 | , , , | | |

| Lease expiry (as of end-Ju | | LA | | | | Top tenants (as of 2017 annual report |) | |
|-------------------------------|------|------|------|------|--------|--|---------------------|-------------------------------|
| 70 ^(%) | | | | | 59.1 | Tenant | Sector | % of cash rental income |
| | | | | | | Amazon | Retail | 17.4 |
| 50 - | | | | | | Rabo Support Services | Consulting | 11.8 |
| 40 - | | | | | | Chubb | Finance & Insurance | 10.5 |
| 30 - | | | | | | | | |
| 20 - | | | 12.5 | 15.3 | | | | |
| 10 - 5.0 | 2.0 | 6.1 | | | | | | |
| 0 | | | | | | | | |
| 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & | | | |
| | | | | | beyond | Top 3 tenants | | 39.7 |







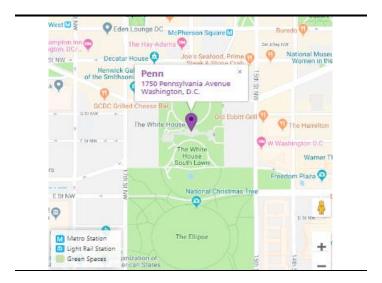
6. Penn

Penn is a 13-storey Class A office building with 277,315 sf of NLA, located in Washington, DC. It was constructed in 1964 and underwent significant renovations from 2012 to 2018, which included a refurbished two-storey main lobby, as well as overhauls of the restrooms and common corridors. The property was awarded the Energy Star Certification by the U.S. Environmental Protection Agency, with on-site amenities including a gourmet sandwich shop, U.S. Post Office, a new fully equipped tenant-only fitness centre and a three-level basement parking garage as well as secured bike storage.

| Penn | | | | |
|----------------------|--------------------------|---------------------------------------|-------|--|
| Address | 1750 Pennsylvania Avenue | WALE, by NLA (years) | 5.9 | |
| Market | Washington, DC | No. of tenants (no.) | 10 | |
| Investment class | A | Occupancy (%) | 99.2 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 52.0 | |
| Completion year | 1964 | Gross revenue, 2018 (USD m) | 8.9 | |
| Last refurbishment | 2012-18 | NPI, 2018 (USD m) | 5.2 | |
| NLA (000 sf) | 278 | Valuation (USD m) | 189.0 | |
| Parking stalls (no.) | 1,107 | | | |

| | | ofile by NI | LA | | | | Top tenants | | | | |
|-------------------|----------|-------------|------|------|------|--------|----------------------------------|-------------------------|--------------------------------|--|--|
| as of er | nd-Jun 2 | 2018) | | | | | (as of 2017 annual report) | | | | |
| 50 ^(%) | | | | | 46.3 | 44.1 | Tenant | Sector | % of gross rental income | | |
| 40 - | | | | | | | US Dept of Treasury | Public Administration | 41.7 | | |
| 35 - | | | | | | | United Nations Foundation | Grant Giving | 37.4 | | |
| 30 - | | | | | | | US Chemical Safety Board | Public Administration | 4.8 | | |
| 25 - | | | | | | | US Postal Service | Public Administration | 2.3 | | |
| 20 - | | | | | | | AOL | Information | 6.3 | | |
| 15 - | | | 7.0 | | | | Board of Regents Univ of Texa | s Public Administration | 4.4 | | |
| 10 - | | | 7.0 | 2.1 | | | VIPS Catering | Accommodation & Food | 1.0 | | |
| 5 - | 0.5 | 0.0 | | 2.1 | | | Taylor Gourmet | Accommodation & Food | 0.9 | | |
| 0 + | | ı | | | | | General Nutrition Corp. | Healthcare | 0.7 | | |
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & | Export-Import Bank of India | Finance & Insurance | 0.5 | | |
| | | | | | | beyond | Top 10 tenants | | 100.0 | | |





Source: Company data



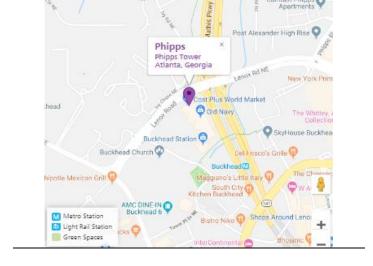
7. Phipps

Phipps is a 19-storey Trophy office tower with 475,199 sf of NLA, developed in 2010 by the sponsor. It is part of the 8-building Trophy set of the Upper Buckhead micro-market in Atlanta. It has a distinctive penthouse top noticeable across the Atlanta skyline and offers floor-to-ceiling window walls providing tenants with views at every direction. Phipps offers various facilities to its tenants, such as a farm-to-table café, a sundry shop, a fitness centre and a conference centre. There are five levels of covered parking with 1,150 parking spaces, and designated electric vehicle charging stations. The property is also LEED-CS Gold Certified.

| Phipps | | | | |
|----------------------|---------------------|---------------------------------------|-------|--|
| Address | 3438 Peachtree Road | WALE, by NLA (years) | 9.0 | |
| Market | Atlanta, GA | No. of tenants (no.) | 9 | |
| Investment class | Trophy | Occupancy (%) | 100.0 | |
| Land tenure | Freehold | Annualised average rents (USD psf pm) | 35.5 | |
| Completion year | 2010 | Gross revenue, 2018 (USD m) | 9.8 | |
| Last refurbishment | - | NPI, 2018 (USD m) | 6.6 | |
| NLA (000 sf) | 475 | Valuation (USD m) | 211.2 | |
| Parking stalls (no.) | 1,150 | | | |

| | ease expiry profile by NLA as of end-Jun 2018) | | | | | | Top tenants (as of 2017 annual report) | | | |
|------|---|------|------|------|------|--------|---|-----------------------|--------------------------------|--|
| 100 | | | | | | 93.6 | Tenant | Sector | % of gross rental income | |
| 80 - | | | | | | | Carters | Retail | 64.6 | |
| 70 - | | | | | | | Northwestern Mutual | Finance & Insurance | 12.6 | |
| 60 - | | | | | | | CoStar | Real Estate | 9.9 | |
| 50 - | | | | | | | Daugherty Business Solutions | Information | 3.8 | |
| 40 - | | | | | | | Speakeasy Communication | Information | 3.6 | |
| 30 - | | | | | | | Cornerstone Investment | Consulting | 2.3 | |
| 20 - | | | | 2.0 | | | Government of Japan | Public Administration | 2.3 | |
| 10 - | 0.0 | 0.5 | 2.1 | 3.8 | 0.0 | | Quantum National Bank | Finance & Insurance | 0.4 | |
| 0 + | - | | | | 1 | | Carole Parks | Accommodation & Food | 0.1 | |
| 7 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 & | | | | |
| | | | | | | beyond | Top 9 tenants | | 99.6 | |





Source: Company data



| FYE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|--|------------|------------|------------|------------|----------------|
| Key Metrics | | | | | |
| Price/DPU(x) | 15.4 | 12.7 | 14.5 | 14.0 | 13.7 |
| P/BV (x) | 1.1 | 0.9 | 1.0 | 0.9 | 0.9 |
| P/NTA (x) | 1.8 | 1.4 | 1.4 | 1.3 | 1.3 |
| DPU yield (%) | 6.5 | 7.9 | 6.9 | 7.1 | 7.3 |
| FCF yield (%) | 6.1 | 6.9 | 8.0 | 7.1 | 7.3 |
| INCOME STATEMENT (USD m) | | | | | |
| Revenue | 92.0 | 144.6 | 159.7 | 165.1 | 169.2 |
| Net property income | 58.4 | 90.7 | 100.3 | 103.7 | 106.2 |
| Management and trustee fees | (4.8) | (7.3) | (5.9) | (6.2) | (6.3) |
| Net financing costs | (9.5) | (19.2) | (23.1) | (23.3) | (23.8) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 31.4 | 16.9 | 0.0 | 0.0 | 0.0 |
| Other pretax income/expenses | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| Pretax profit | 73.8 | 79.2 | 71.5 | 74.4 | 76.3 |
| Income tax | (15.8) | (14.7) | (1.1) | (1.1) | (1.1) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total return avail to unitholders | 26.6 | 47.6 | 70.5 | 73.3 | 75.2 |
| Distributable inc to unitholders | 46.7 | 71.0 | 76.2 | 79.3 | 81.3 |
| DALANCE CHEET (HCD) | | | | | |
| BALANCE SHEET (USD m) Cash & Short Term Investments | 49.7 | 54.1 | 47.0 | 47.0 | 47.0 |
| Accounts receivable | 0.0 | 0.0 | | 0.0 | |
| | | | 0.0 | | 0.0 |
| Property, Plant & Equip (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inversities | 1,312.8 | 1,738.7 | 1,799.3 | 1,860.1 | 1,906.3 0.0 |
| Intangible assets Investment in Associates & JVs | 0.0 0.0 | 0.0 0.0 | 0.0 0.0 | 0.0 0.0 | 0.0 |
| Other assets | 6.7 | 10.1 | 10.1 | 10.1 | 10.1 |
| Total assets | 1,369.2 | 1,802.9 | 1,856.4 | 1,917.1 | 1,963.3 |
| ST interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts payable | 18.2 | 16.8 | 16.8 | 16.8 | 16.8 |
| LT interest bearing debt | 458.4 | 667.2 | 667.2 | 667.2 | 667.2 |
| Other liabilities | 40.5 | 54.8 | 54.8 | 54.8 | 54.8 |
| Total Liabilities | 517.1 | 738.8 | 738.8 | 738.8 | 738.8 |
| Shareholders Equity | 852.1 | 1,064.1 | 1,117.6 | 1,178.3 | 1,224.5 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total shareholder equity | 852.1 | 1,064.1 | 1,117.6 | 1,178.3 | 1,224.5 |
| Total liabilities and equity | 1,369.2 | 1,802.9 | 1,856.4 | 1,917.1 | 1,963.3 |
| | | | | | |
| CASH FLOW (USD m) | 42.2 | 40.4 | 22.5 | 70 1 | . |
| Cash flow from operations | 43.8 | 62.6 | 88.9 | 79.1 | 81.0 |
| Capex | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) |
| Acquisitions & investments | (434.3) | (399.3) | (20.0) | 0.0 | 0.0 |
| Disposal of FA & investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend income from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investing cash flow | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| CF from investing activities | (434.3) | (399.1) | (19.8) | 0.2 | 0.2 |
| Dividends paid | (42.5) | (58.7) | (76.2) | (79.3) | (81.3) |
| Interest expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in debt | 163.6 | 207.7 | 0.0 | 0.0 | 0.0 |
| Equity raised / (purchased) | 280.4 | 192.6 | 0.0 | 0.0 | 0.0 |
| Other financial activities | 0.2 | (0.7) | 0.0 | 0.0 | 0.0 |
| CF from financing activities | 401.7 | 340.9 | (76.2) | (79.3) | (81.3) |
| Effect of exchange rate changes | 0.1 | (0.0) | 0.0 | 0.0 | 0.0 |
| Net cash flow | 11.2 | 4.4 | (7.1) | 0.0 | 0.0 |



| FYE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-------------------------------|-------|-------|-------|-------|-------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 93.7 | 57.1 | 10.5 | 3.4 | 2.5 |
| Net property income growth | 94.7 | 55.4 | 10.7 | 3.3 | 2.5 |
| Core net profit growth | 109.4 | 51.9 | 7.3 | 4.1 | 2.5 |
| Distributable income growth | 109.4 | 51.9 | 7.3 | 4.1 | 2.5 |
| Profitability ratios (%) | | | | | |
| Net property income margin | 63.4 | 62.7 | 62.8 | 62.8 | 62.8 |
| Core net profit margin | 50.8 | 49.1 | 47.7 | 48.0 | 48.0 |
| Payout ratio | 80.6 | 110.0 | 108.1 | 108.1 | 108.1 |
| DuPont analysis | | | | | |
| Total return margin (%) | 28.9 | 33.0 | 44.1 | 44.4 | 44.4 |
| Gross revenue/Assets (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Assets/Equity (x) | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 |
| ROAE (%) | 3.8 | 5.0 | 6.5 | 6.4 | 6.3 |
| ROAA (%) | 4.2 | 4.5 | 4.2 | 4.2 | 4.2 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.6 | 2.4 | 2.5 | 2.6 | 2.7 |
| Net gearing (%) (excl. perps) | 48.0 | 57.6 | 55.5 | 52.6 | 50.6 |
| Net interest cover (x) | 5.5 | 4.2 | 4.1 | 4.2 | 4.2 |
| Debt/EBITDA (x) | 8.8 | 8.2 | 7.1 | 6.8 | 6.7 |
| Capex/revenue (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/ (net cash) | 408.7 | 613.1 | 620.2 | 620.2 | 620.2 |
| Debt/Assets (x) | 0.33 | 0.37 | 0.36 | 0.35 | 0.34 |

Source: Company; Maybank



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