Mapletree Commercial Trust

BUY: S$2.39 (+20.7%)

Quality over Quantity

3 October 2020

NUS INVESTMENT SOCIETY

Company Overview

Figure 1. Portfolio Valuation by Properties

Property	Portfolio Valuation
VivoCity	37%
MBC I	25%
MBC II	17%
PSA Building	9%
Anson	8%
MLHF	4%

Figure 2. MCT Top 3 Tenants

MCT Top 3 Tenants	Revenue
Google Asia Pacific Pte. Ltd.	10.10%
Merril Lynch Global Services Pte. Ltd.	3.00%
The HSBC Limited	2.90%

Mapletree Commercial Trust ("MCT") is a pure-play Singapore Real Estate Investment Trust (REIT) whose primary investment objective is investing in a diversified portfolio of income-producing real estate, with the primary focus on offices and/or retail uses.

MCT's portfolio is lean, with only 5 properties, but it has several of the best-in-class properties, namely VivoCity, Mapletree Business City, PSA Building, Mapletree Anson and Bank of America Merrill Lynch Habourfront.

(S$M)	2017A	2018A	2019A	2020E
Revenue	377.75	433.52	443.89	482.83
Net Property Income	292.3	338.8	347.6	377.9
NPI Gr Rate (%)	-	*15.9*	*2.5*	*8.7*
NAV per Unit (S$)	1.38	1.49	1.60	1.75
Market Cap	4392.8	4283.4	4616.6	5786.9
Gearing Ratio (%)	*36.3*	*34.5*	*33.1*	*33.3*
Interest Coverage Ratio	4.9x	4.8x	4.5x	4.3x
DPU (S$)	0.08	0.09	0.09	0.08

12M Industry Outlook

Figure 3. Business Park Supply-Demand and Vacancy rates

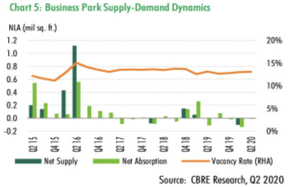


Figure 4. Office Vacancy Rates

Location	Q2 20	Q-o-Q	Y-o-Y
Islandwide	5.6%	61 bps	80 bps
Core CBD	5.6%	98 bps	139 bps
Fringe CBD	5.6%	-3 bps	83 bps
Decentralised	5.4%	54 bps	-49 bps
Grade A (Core CBD)	2.9%	51 bps	-103 bps

1. **Demand:** In the commercial sector, technology and insurance sectors continued to generate demand through Covid-19. Grade A core Central Business District (CBD) offices are expected to show resilient demand, with vacancy rates lower by 103 bps compared y-o-y. Business parks sector in the City Fringe also provides great resiliency in the future as a flexible, low-cost work area, due to their flexible floorplates, with positive rental reversions of 0.9% y-o-y.
2. **Supply:** Between 2020 to 2022, there are no planned retail projects in the Harbourfront/Alexandra micro-market, contributing to retail rental resilience in the near future. In the commercial sector, quarantine orders on foreign workers restricted construction activity, translating into slower commercial supply in the near future. The tight supply of Business parks in the City Fringe that is valued at only S$0.73m will support rents up to 2022.
3. **Risk:** Due to Covid-19's impact on businesses, businesses are downsizing, thus tenant retention in retail and commercial sectors is challenging. There is a potential for negative rental reversion for retail and commercial spaces. As VivoCity accounts for 42% of the NPI, the impact can be significant.

Investment Thesis

Figure 5. Debt Headroom (S$b)

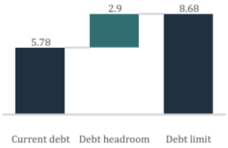
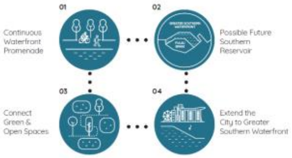


Figure 6. URA Master Plan 2019



1. **Resiliency from low gearing and tenant selection ensures sustainable revenue post-Covid.** MCT has an additional debt headroom of S$2.9b due to its low gearing ratio of 33.3%, allowing it to safely tide through Covid-19. Its tenant selection is also diversified with low concentration risk, and MCT is increasing exposure to tenants in the burgeoning technology sector from 5.1% to 18.5%, a relatively strong sector with huge growth opportunities post-Covid-19.
2. **Strong future growth in Harbourfront micro-market** due to the URA Master Plan 2019, which aims to develop an urban living gateway in the area. Due to lease expiry of Keppel Club and port relocation, a new residential district with 9000 public homes, and 1000ha of land will be redeveloped. MRT line completions in next 5 years will further improve connectivity. These will increase foot traffic and drive positive rental reversions in the area which provides >90% of MCT's revenue.
3. **Strong investment pipeline and Asset Enhancement Initiatives –** The acquisition of MBCII has bolstered revenue through resilience within the business park segment. MCT also has strong investment pipeline in Harbourfront area due to ROFR of assets from its sponsor.

Valuations

Figure 7. Dividend Discount Model

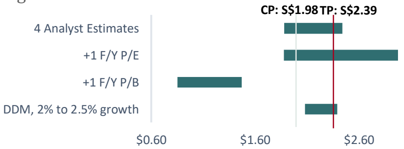
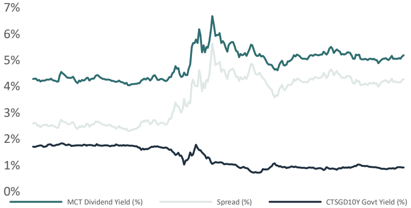


Figure 8. 1Y Historical Yield Spread



Dividend Discount Model (DDM): Using a FFO of S$687m, and FFO payout ratio of 78.6% and return on equity of 11.87% with a terminal growth rate of 2.54%, and an estimated annual dividend of S$0.09, annual risk free rate of 1.30%, beta of 0.67, market premium of 6.87% and adjusted risk of 0.5%, we arrived at a target price of S$2.39 (+20.71%).

Dividend Yield Analysis: MCT's current dividend yield is 5.18% versus a current SGS yield of 0.90%. This implies a current yield spread of 4.28% which is higher than the average historical yield spread of 3.57%. The spread expansion further exemplify MCT's DPU potential despite its large capital expenditure on MBCII.

Target Price	
Target Price	S$2.39
Upside	+20.71%

Sources: Company Filings, CBRE, MorningStar, NUS Investment Society Estimates and Research

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