

Earnings Review: Mapletree Greater China Commercial Trust (“MAGIC”)

Recommendation

- MAGIC continues to report decent results, with occupancy and rentals across its 3 properties remaining strong. Sizeable revaluation gains drove aggregate leverage lower to 36.2%, though this will be temporary as MAGIC is acquiring a portfolio in Japan. As such, we will retain our Neutral (4) Issuer Profile.
- We think that the MAGIC curve is fully valued. Within the Mapletree REITs, we prefer MCTSP 3.25% '23s as we rate Mapletree Commercial Trust with a stronger Neutral (3) Issuer Profile. Investors can also consider FHREIT 2.63% '22s, which we rate with a Neutral (3) Issuer Profile.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
MAGIC 3.96% '22s	09/11/2022	36.2%	3.07%	70bps
MCTSP 3.25% '23s	03/02/2023	34.5%	3.06%	67bps
FHREIT 2.63% '22s	06/07/2022	33.1%	2.98%	64bps

Indicative prices as at 26 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (4)

Ticker: **MAGIC**

Background

Listed on the SGX in 2013, Mapletree Greater China Commercial Trust (“MAGIC”) is a S-REIT with a mandate to invest in the Greater China region. MAGIC currently holds 3 commercial properties in its portfolio. Festival Walk is located in Hong Kong while Gateway Plaza and Sandhill Plaza is located in Beijing and Shanghai respectively. MAGIC has a market cap of SGD3.3bn as of 26 Apr 2018. Temasek Holdings is MAGIC's largest shareholder with a 33.99% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

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Key Considerations

- Decent results with all 3 properties continuing to deliver:** MAGIC reported FY2018 results for the year ending 31 March. Revenue and net property income rose 1.3% y/y and 0.5% y/y to SGD355.0mn and SGD287.2mn respectively. This is buoyed by higher contributions from Gateway Plaza, which saw revenue and NPI increasing 7.1% y/y and 3.5% y/y to SGD84.7mn and SGD67.3mn respectively. Festival Walk and Gateway Plaza's y/y growth were flattish as a lower HKD against SGD offset the higher rental rates achieved.
- Good performance expected to continue with positive rental reversion and strong occupancy:** Rental reversions continued at a positive pace for Festival Walk (+11%), Gateway Plaza (+8%) and Sandhill Plaza (+15%). Occupancy remains strong, with Festival Walk maintaining at 100% since 1998. In particular, tenant sales at Festival Walk increased 7.4% y/y to HKD5.2bn while footfall increased 3.2% y/y to 41.7mn. Gateway Plaza (+1.5pp to 96.5%) and Sandhill Plaza (+1.7pp to 100%) also saw stronger occupancy. Moving forward, MAGIC expects all 3 properties to continue recording positive rental reversions.
- Acquisition of Japan portfolio:** Following the announcement in March 2018 of the [SGD770.5mn acquisition of a portfolio of Japan assets](#), MAGIC recently announced an equity private placement of SGD330.3mn, which should be used to fund the acquisition. We assume the rest of the acquisition will be funded by debt. MAGIC will be renamed “Mapletree North Asia Commercial Trust” following the completion of the acquisition, which will see its portfolio expanding beyond the Greater China region. The acquisition of the portfolio will increase the NLA to 4.2mn sq ft (existing: 2.6mn sq ft) and diversify MAGIC away from its dependence on Festival Walk, which currently contributes ~68% of the FY2018 revenue.
- Credit metrics remain intact:** Aggregate leverage fell to 36.2% (3QFY2018: 39.3%), largely due to sizeable fair value gains (SGD417.1mn) on investment properties in comparison to total assets of SGD6.5bn. Including the acquisition of the Japan portfolio, aggregate leverage may increase to ~38.5%. Debt maturity profile is well-staggered, with no more than 24% of debt due in any year though average term to maturity fell to 3.43 years (FY2017: 3.73 years). Nevertheless, we are comforted as we see minimal refinancing risks with only HKD496mn (~SGD84mn) of debt due within the next 12 months while HKD225mn of debt due in FY2021 has been early-refinanced in 4QFY2018. Reported interest cover improved to 3.9x (FY2017: 3.6x).

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral		Negative		
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight (“OW”) – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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