Asia Credit Research

Earnings Review: Mapletree Commercial Trust ("MCT")

Recommendation

- MCT's core assets comprising VivoCity and MBC remain strong with its office assets performing slightly better (1.38% increase y/y).
- With aggregate leverage remaining stable, we will retain our Neutral (3) Issuer Profile.
- Across the MCT curve, we are overweight the belly and underweight the longer end. In particular the MCTSP 3.25 '23s and MCTSP 3.28 '24s look the better value, while we are neutral the shorter end.

Relative Value:

Bond	Maturity	Aggregate leverage	Ask Yield	Spread
MCTSP 2.65 '19	07/11/2019	34.7%	2.40%	58bps
MCTSP 3.6% '20	24/08/2020	34.7%	2.60%	64bps
MCTSP 3.2 '21	12/04/2021	34.7%	2.70%	67bps
MCTSP 3.25 '23	03/02/2023	34.7%	2.99%	80bps
MCTSP 3.28% '24	23/09/2024	34.7%	3.18%	87bps
MCTSP 3.11 '26	24/08/2026	34.7%	3.35%	91bps
MCTSP 3.045% '27	27/08/2027	34.7%	3.45%	95bps

Indicative prices as at 31 July 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (3)

Ticker: **MCTSP**

Background

Mapletree Commercial Trust ("MCT") is a REIT that invests in office and retail assets. Its five key assets are 1) VivoCity; 2) Mapletree Business City I ("MBC I"); 3) Bank of America Merrill Lynch HarbourFront ("MLHF"); 4) PSA office building ("PSAB") that includes a 40-storey office block and Alexandra Retail Centre ("ARC"); and 5) Mapletree Anson. The properties, with an NLA of 3.8mn sqft, are valued at SGD6.69bn as of 30/06/18. MCT is 34.0% owned by Temasek through Mapletree Investments.

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Key Considerations

- **Revenue growth in MLHF, PSAB and MBC I mitigate dip in Mapletree Anson and VivoCity**: MCT's reported first quarter results for the financial year starting April 2018 ("1QFY2019") was largely stable with gross revenue for the portfolio up marginally by 0.7% y/y to SGD108.5mn and NPI up 2.1% y/y to SGD85.9mn. This was mainly due to higher contribution from Bank of America Merrill Lynch HarbourFront ("MLHF"), PSA Building ("PSAB") and Mapletree Business City I ("MBC I"), offset partially by lower occupancy and lower advertising revenue from Mapletree Anson and VivoCity respectively. Specifically, MLHF's revenue was up 12.2% y/y due to full occupancy in 1QFY2019 while PSAB and MBC I saw 1.9% y/y and 0.6%y/y increase in revenue due to effects of the step-up rent in existing leases. Revenue change q/q was mild with MLHF, PSAB and Mapletree Anson reporting +3.6%, +3.5% and +1.8% growth and VivoCity and MBC I reporting -1.5% and -1.0% dip.

- **Strong portfolio occupancy with improving rental reversions**: VivoCity, PSAB and Mapletree Anson have high committed occupancy of 99.9%, 98.7% and 100% respectively, versus the current actual occupancy of 94.2%, 95.4% and 90.8%. Overall portfolio committed occupancy remains strong at 99.2% (4Q2018: 99.5%). In terms of rental reversion, retail became more positive at +2.1% (4Q2018: +1.5%) while office remains weak at -5.3% (4Q2018: -8.7%). Overall portfolio rental reversion is 1.2%. Portfolio WALE remained stable at 2.6 years. Lease expiry for FY2019 looks very manageable at 7.5% of gross rental revenue for retail and 5.1% of gross rental revenue for office/business park.

- **VivoCity continued consistent performance**: Despite the downtime from spaces vacated to make way for the public library and concept stores which translated into lower tenant sales (-4.1%y/y) and the lower revenue mentioned above, VivoCity (45.6% of portfolio NPI) saw shopper traffic up 0.4%y/y and 2.3% y/y growth in NPI in 1QFY2019. The extension for Basement 1 opened in June 2018, adding 24,000 sqft of contiguous retail space. The public library, on the other hand, is expected to be completed by 2HFY2019 and deliver ROI of approximately 10% based on estimated capital expenditure of SGD16mn. With all additional NLA fully committed, committed occupancy remained high at 99.9%.

- **Strong financial flexibility**: Aggregate leverage remained stable at 34.7% (4QFY2018: 34.5%) while reported interest coverage was slightly lower at 4.6x (4QFY2018: 4.8x) due to marginally higher annualized weighted average all in cost of debt (2.91% as at 30 June 2018 against 2.75% as at 31 March 2018). Refinancing of SGD144mn maturing term loan facility due in August 2018 and SGD116mn of SGD197.6mn in April 2019 will be completed by August 2018. This will leave MCT with SGD131.6mn in debt maturing in FY2019. Furthermore, with approximately SGD1.2bn debt headroom, assets 100% unencumbered and no more than 20% of debt due for refinancing in any financial year, MCT's financial flexibility remains strong. The risk to MCT's credit profile remains potential asset injections by its sponsor, such as the 1.2mn sqft Mapletree Business City II which had received TOP in April 2016. Based on the valuation for MBC as at 31 March 2018 at SGD1,109 psf NLA, Mapletree Business City II is currently valued at around SGD1.31bn.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") 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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