Asia Credit Research

Earnings Review: Mapletree Commercial Trust ("MCT")

Recommendation

- MCT's core assets of VivoCity and MBC have continued to perform, mitigating some weakness seen in its office assets. Strong portfolio revaluation gains have helped MCT's aggregate leverage inch lower. We will retain our Neutral (3) Issuer Profile.
- Comparing the MCTSP '24s, CCTSP'24s and CAPITA '24s (we hold all three at Neutral (3) Issuer Profile), MCTSP '24s look slightly more attractive given its stronger credit profile (versus CCTSP '24s) or spread pickup (versus CAPITA '24s).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
MCTSP 3.28% '24	23/09/2024	34.5%	3.23%	75bps
CCTSP 3.17% '24	05/03/2024	37.9%	3.21%	75bps
CAPITA 3.75% '24	02/08/2024	33.5%	3.13%	63bps

Indicative prices as at 27 April 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 Phase 1 ("MBC"); 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 SGD6.68bn as of 31/03/18. MCT is 33.9%-owned by Temasek through Mapletree Investments.

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Key Considerations

- **VivoCity & MBC mitigating PSAB and Mapletree Anson weakness**: MCT reported 4QFY2018 / full-year FY2018 results (ending March 2018). For FY2018, gross revenue was up 14.8% to SGD433.5mn while NPI was up 15.9% to SGD338.8mn. Results were largely boosted by the full-year contribution from MBC (acquired in August 2016, or 2QFY2017). For 4QFY2018, gross revenue was up 1.3% y/y to SGD108.9mn while NPI was up 1.2% y/y to SGD84.3mn. Specifically VivoCity, MBC and MLHF performed, reporting +1.1%, +2.3% and +12.7% in property revenue growth for the quarter. MLHF likely benefitted from the leasing of the space that Merrill Lynch returned in 4QFY2017, bringing actual occupancy to 100% (actual occupancy was just 79.2% in 4QFY2017). These factors helped to mitigate continued weakness seen at PSAB (-1.2%) and Mapletree Anson (-3.4%).

- **Occupancy improving though retail rental reversions slow**: On the bright side, PSAB and Mapletree Anson have high committed occupancy of 98.7% and 100% respectively, versus the current actual occupancy of 96.1% and 86.6%. As such, performance is expected to pick up for these two assets. Overall portfolio committed occupancy had also improved q/q as well to 99.5% (3QFY2018: 98.7%). In terms of rental reversion, retail remained positive at +1.5% for FY2018, though it had fallen from the +2.3% seen in 9MFY2018. Office rental reversion remains weak at -4.2%, while for MBC adjusted rental reversion was -0.7%. Portfolio WALE remained constant q/q at 2.7 years. Lease expiry for FY2019 looks manageable at 12.6% of gross rental revenue (for retail) and 6.0% of gross rental revenue (for office/business park)

- **AEI at VivoCity looks on track**: VivoCity (45% of portfolio NPI) continued to show strong performance. Though shopper traffic dipped 1.4% to 55.0mn, tenant sales increase 0.7% y/y to SGD958.2mn. The ongoing AEI to extend basement 1 is proceeding, and is expected to be completed by 3QFY2019. When completed, MCT would have created 24,000 sqft of contiguous retail space in basement 1 (likely to be higher yielding compared to the 3,000 sqm space on the 3rd floor "traded" away to become a public library). It is worth noting that the newly created space in basement 1 has already been fully committed. Conversely, performance at MCT's office assets is expected to remain sluggish (in rental terms).

- **Valuations gains supported credit profile**: Aggregate leverage had improved, falling q/q to 34.5% (4QFY2018: 36.3%). This was largely driven by strong portfolio revaluation gains of 5.4% to SGD6.7bn. In particular, VivoCity saw its valuation increase 10.5% y/y to SGD3.03bn, driven by the sharp compression in cap rates from 5.15% (4QFY2017) to 4.75% (4QFY2018). In general, Singapore retail assets saw sharp compression in cap rates the most recent fiscal year due to the Jurong Point transaction (at record psf NLA, which lifted asset valuations across the industry). MCT's other assets also booked valuation gains, though we note that for PSAB and Mapletree Anson gains were more modest. Reported interest coverage was stable at 4.8x (FY2017: 4.9x). Short-term debt due in FY2019 is manageable at SGD144.0mn, as MCT had just refinanced SGD120mn via a 6-year bond. MCT has no encumbered assets, which provides financial flexibility. Risk to MCT's credit profile remains potential asset injections by its sponsor, such as MBC Phase 2 (which had received TOP in April 2016).

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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.

Co.Reg.no.:193200032W