Asia Credit Research

Earnings Review: Mapletree Commercial Trust ("MCT")

Recommendation

- Top line growth recorded in 1QFY2020 of 3.3% y/y was largely broad based, led by VivoCity.
- Aggregate leverage was 33.1% at end June 2019, which implies a debt room of ~SGD816mn (assuming an implicit limit of 40%). As such, we think MCT has room to acquire Mapletree Business City 2 whose valuation is ~SGD1.4bn based on our estimation. EBITDA/Interest coverage was stable q/q at 4.5x.
- Overall, MCT's performance and credit metrics remain firm. We would expect MCT to continue to deliver strong performance going forward as the enhancement initiative and changeover of tenants at VivoCity have been completed (some were post 1QFY2020 results). We continue to hold MCT at an issuer profile of Neutral (3).
- We think MCTSP bonds are largely trading fair and in line with the market, though there seems to be slightly more value in the medium to long end of the curve. Relative to its own curve, we think MCTSP 3.28% '24s looks the most interesting. This bond offers a 2.72% yield to worst and a spread of 105 bps over swap which is ~58bps over MCTSP '20s for a 4 year longer tenor and ~13bps less than MCTSP '27s for a ~3 year shorter tenor.

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 1 ("MBC 1"); 3) Bank of America Merrill Lynch HarbourFront ("MLHF"); 4) PSA Building ("PSAB") and 5) Mapletree Anson. The properties, with an NLA of 3.9mn sq ft, are valued at SGD7.04bn as at 31 March 2019. MCT is 34.6% owned by Temasek through Mapletree Investments Pte Ltd.

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Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
MCTSP 3.6% '20	24/08/2020	33.1%	2.16%	47bps
MCTSP 3.28% '24	23/09/2024	33.1%	2.72%	105bps
MCTSP 3.045% '27	27/08/2027	33.1%	3.00%	119bps

Indicative prices as at 30 Jul 2019 Source: Bloomberg
Net gearing based on latest available quarter

Key Considerations

- **Broad based growth:** MCT saw gross revenue increase by 3.3% y/y to SGD112.1mn in the first quarter of the financial year ending 31 March 2020 ("1QFY2020"). This was driven by higher rental income across all properties. Specifically, VivoCity recorded +5.2% y/y gain (i.e. SGD2.6mn), followed by MBC 1 at +3.8% y/y (i.e. SGD1.2mn). Both MLHF and PSA Building saw a SGD0.1mn y/y increase in revenue which translated to a +2.1% y/y and +1.0% y/y revenue growth respectively. Mapletree Anson on the other hand saw revenue decline by SGD0.5mn due to the absence of compensation sums, which more than offset its higher rental income. Net property income ("NPI") moved in tandem by 2.8% to SGD88.3mn.

- **VivoCity continued to deliver solid performance:** In 1QFY2020, VivoCity generated 4.2% y/y and 0.6% q/q growth in net property income ("NPI"). This was mainly due to higher rental income from new and renewed leases, and effects of the step-up rents in existing leases. In our view, VivoCity is an exceptional asset. It has consistently performed well since the IPO of MCT some eight years ago and has recorded ~3-5% revenue growth per annum in the recent years. Although shopper traffic was down 2.8% y/y and tenant sales fell by 4.0% y/y at the mall, we are not overly concerned as the quarter was negatively impacted by the changeover of hypermarket. We would expect both measures to improve going forward as the new hypermarket, NTUC FairPrice has opened on 16 July. In fact, we think VivoCity is likely to benefit from the change and both shopper traffic and tenant sales may possibly rise above the level seen prior to the changeover.

- **Good portfolio statistics:** Overall portfolio rental reversion was positive at +5.3%, with committed occupancy rate at 98.9% as at 30 June 2019 (31 March 2019: 98.1%). On the retail front, retention ratio by net lettable area ("NLA") was high at 87.5% with healthy rental reversions of +7.3%. Office and Business Park segment on the other hand only saw a 0.3% change in rents, though still positive. Retention rate by NLA was 62.4%. Lease expiries for both segments are inconsequential at ~2% each and we see ~10-15% of leases expiring each financial year going forward which is manageable. As such, we expect MCT to keep up its good performance.

- **Robust balance sheet:** For the remaining three quarters of FY2020, MCT only has a SGD50mn bond coming due in Nov 2019. This is very manageable in our view as MCT has SGD41mn cash on hand and all of its assets are unencumbered. Debt maturity profile is also well-distributed with no more than 20% of debt due in any financial year. Additionally, aggregate leverage was 33.1% as at 30 June 2019, which translates to debt headroom of ~SGD816mn if we were to assume that the implicit aggregate leverage limit is 40%. We think MCT has room to acquire Mapletree Business City 2 ("MBC 2") from its Sponsor. This property was completed in February 2017. If we were to use MBC 1 which has a NLA of 158,602 sq m and was valued at SGD2.0bn as at 31 March 2019 to estimate the value of MBC 2, we find MBC 2 (NLA: 110,200 sq m) may be valued at ~SGD1.4bn. Assuming a 45/55 split in debt and equity funding for acquisition, based on debt headroom of SGD816mn, MCT can afford to spend up to ~SGD1.8bn.

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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

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

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.