Issuer Profile:
Neutral (4)

Ticker:
MAGIC

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Mapletree North Asia Commercial Trust ("MNACT")

Recommendation

- **MNACT, which saw double digit positive y/y growth in revenue and NPI, continues to be anchored by Festival Walk.**
- **Aggregate leverage increased slightly to 36.9% from 36.6% in the preceding quarter, due translation losses in the numerator and translation gains in the denominator. This demonstrates MNACT's vulnerability to foreign exchange movements.**
- **Overall, MNACT's credit metrics remain intact, and we continue to hold MNACT at an issuer profile of Neutral (4).**
- **We think the bonds are trading tight and we are Underweight on the MNACT bonds. We prefer MCTSP 3.28% '24s over MAGIC 3.5% '23s as the former is offering a 13bps pick up for a 1.5 years longer tenor, on top of a strong credit profile. We have Mapletree Commercial Trust ("MCT") on a Neutral (3) Issuer Profile.**
- **The Mapletree Industrial Trust ("MINT") curve appears to trade ~3-9bps wider than that of MNACT, even though it has a stronger credit profile of a Neutral (3) Issuer Profile. Therefore, comparatively, we prefer the MINT curve which we think is trading fair over MNACT's, and think that MNACT is trading tight.**

Relative Value:

Bond	Maturity / Call date	Aggregate leverage	Ask YTW	Spread
MAGIC 3.2% '21	08/09/2021	36.9%	2.39%	68bps
MAGIC 3.43% '22	09/03/2022	36.9%	2.42%	72bps
MAGIC 3.96% '22	09/11/2022	36.9%	2.45%	76bps
MAGIC 3.5% '23	22/03/2023	36.9%	2.57%	88bps
MINTSP 3.65% '22	07/09/2022	33.4%	2.50%	81bps
MINTSP 3.02% '23	11/05/2023	33.4%	2.60%	91bps
MINTSP 3.16% '24	28/03/2024	33.4%	2.67%	97bps
MCTSP 3.28% '24	23/09/2024	33.1%	2.72%	101bps

Indicative prices as at 01 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Mapletree North Asia Commercial Trust ("MNACT"), listed on the SGX in 2013, is a S-REIT with a mandate to invest in the North Asia region (Greater China and Japan). MNACT holds 9 commercial properties in its portfolio, located in Hong Kong, China and Japan.
- MNACT has a market capital of SGD4.45bn. Temasek Holdings is MNACT's largest shareholder with a 33.32% stake. Mapletree Investments Pte Ltd is the sponsor of MAGIC.

Key Considerations

- **Anchored by Festival Walk:** MNACT saw revenue and NPI grow by 11.1% and 10.7% respectively on a year-on-year basis in the first quarter for the financial year started 1 March 2019 ("1QFY2020"). This was driven mainly by Festival Walk and a full quarter contribution from Japan Properties (acquired on 25 May 2018). Excluding the contribution from Japan Properties, both revenue and NPI growth moderated to 3.2%and 3.4% y/y. On a quarter-on-quarter basis, we found revenue higher by 0.8% and NPI higher by 1.3%, largely due to Festival Walk as well. We note that Festival Walk accounts for 62% of portfolio revenue and NPI.

- **Festival Walk continues to perform:** Having always been 100% occupied, we think revenue growth seen at Festival Walk over the years is driven by a higher average rental rate. This is consistent with the positive average rental reversions recorded at the property since IPO. Within Festival Walk, we have both retail and office components. As at 30 June 2019, year-to-date rental reversion at retail was +12% and +5% at office. In the recent quarter, 1QFY2020, revenue growth was 6.6% y/y and 1.4% q/q while NPI growth was 6.7% y/y and 1.7% q/q. With ~24% of the leases by gross rental income at Festival Walk expiring in FY2020, we think the property has room to continue to generate organic growth so long as the fundamentals of the market remain sound. Having said that, retail sales at the property fell by 3.2% y/y with footfall was down by 1.8% y/y, as the overall retail sales in Hong Kong fell by 1.8% y/y for 5M2019 (trade tensions have subdued domestic demand). Finally, while protests have continued into the second month, management has shared that Festival Walk, patronized largely by local shoppers, can be expected to stay resilient.

- **Weakness at Gateway Plaza:** This property located in Beijing, China contributes to one-fifth of the portfolio revenue and NPI. In 1QFY2020, revenue was down 4.0% y/y and 0.9% q/q, and NPI was down by 4.1% y/y and 0.6% q/q, dragged by a lower average rate of RMB against SGD. Occupancy rate was also lower at 97.2% as at 30 June 2019, versus 99.0% in the preceding quarter and 99.6% a year ago. On the rental reversion front, Gateway Plaza recorded negative 5% rental reversion year-to-date in 2019. This property has ~14% of its leases by gross rental income expiring in FY2020. Therefore, while the weak demand for office space and higher level of new office supply in Beijing is expected to negatively impact rent and occupancy levels at Gateway Plaza. We think the impact is likely to be contained (at least) for FY2020. Performance at Sandhill Plaza, MNACT's only other property in China (Shanghai), is expected to remain stable.

- **Manageable credit metrics:** Aggregate leverage increased slightly to 36.9% (4QFY2019: 36.6%), due a bigger translation loss in total borrowings from the stronger HKD and JPY versus the weaker RMB as compared to the translation gains in its assets. MNACT has the following debt distribution by currency HKD/JPY/RMB of 72%/26%/2% while the geographical breakdown by valuation HK/JP/CN is 66%/24%/10%. We note that MNACT's exposure to the various currencies is not an exact match and hence MNACT is vulnerable to exchange rates movement as demonstrated above. Reported interest coverage ratio was largely stable at 4.4x (4QFY2019: 4.3x). Debt maturity is well-staggered with only SGD109mn of bank debt and SGD96mn of bonds due in FY2020. MNACT has SGD173mn cash and bank balances as at 30 June 2019.

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.

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.

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.

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