Singapore Industry Focus

Mapletree Group of REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Sep 2019

Your four aces

- Mapletree REITs are positioned in sectors that can ride market uncertainties well
- MLT/MINT to see robust DPU growth on the back of portfolio reconstitution
- MCT - meteoric rise on the back of game changing moves
- MAGIC – misplaced worries and all set to deliver

A crowd puller. We hosted all four Mapletree REITs at a tailored conference in Bangkok. While investors were concerned on the impact of the trade war on operations and risk on distributions, we believe Mapletree REITs are well positioned in the near term, boosted by properties in more resilient asset classes coupled with acquisition prospects to drive 2-3% DPU growth in FY19-21F.

MINT – Reconstituted portfolio to yield alpha returns. The perception of weaker financials of MINT's largely small-medium enterprise (SMEs) base at its flatted factories is likely unfounded given the Manager's active asset management strategy. In addition, ongoing conversion of its assets into higher specification properties coupled with selectively adding more overseas data centers offers earnings resilience and visibility.

MLT – Trade-war "beneficiary". We remain excited on MLT's ability to ride the robust outlook for logistics properties in China and ASEAN. While it continues to enjoy a significant acquisition pipeline for growth, we believe that organic reversions will dial up in 2H20-21 as demand picks up in selected cities in China, Vietnam, Malaysia, and Singapore. There is earnings upside risk from acquisitions, and we have priced in S$500m in our forecast.

MCT – A meteoric rise. We had not anticipated the meteoric 11% rise in share price in the past month ahead of its recently announced inclusion into the Straits Times Index (STI). We believe there is still upside from the current level with catalysts from (i) potential accretive purchase of Mapletree Business City Phase 2, and (ii) better than projected reversions and tenant sales at VivoCity post operations from a new anchor tenant.

MNACT – Misplaced worries and set to deliver against all odds. Unlike its peers with malls that cater largely to tourists, MAGIC's positioning is more towards mid-level brands coupled with a more local focused shopper profile, which underpins its more resilient outlook. MAGIC derives a significant portion of its revenues from Festival Walk in Hong Kong, a 'family-themed mall'. We estimate the impact of a slowdown in tenant sales will be <2% of topline, which is manageable.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Mapletree Commercial Trust	2.19	4,593	2.40	8.4	35.2	BUY
Mapletree Industrial Trust	2.32	3,402	2.50	8.4	15.4	BUY
Mapletree Logistics Trust	1.57	4,135	1.85	2.6	24.6	BUY
Mapletree North Asia Commercial Trust	1.32	3,043	1.65	(2.9)	14.8	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 10 Sep 2019

Legend:
MCT: Mapletree Commercial Trust
MAGIC: Mapletree North Asia Commercial Trust
MLT: Mapletree Logistics Trust
MINT: Mapletree Industrial Trust

Summary of Mapletree REITs

Geographic exposure

	By % Portfolio Value									
	Singapore	Malaysia	Japan	Korea	Australia	Vietnam	HK	China	US	Total
MCT	100%	-	-	-	-	-	-	-	-	100%
MAGIC	-	-	10%	-	-	-	66%	22%	-	100%
MINT	91%	-	-	-	-	-	-	-	9%	100%
MLT	33%	3%	10%	6%	8%	1%	32%	8%	-	100%

Source: Companies, DBS Bank

Sector exposure

	By % of valuation							
	Commercial		Industrial					
	Retail	Office	Business Parks	Flatted	Hi-spec	Data-centers	Logistics	Others
MCT	45%	45%	10%	-	-	-	-	
MAGIC	66%	28%	6%	-	-	-	-	
MINT	-	-	12%	33%	25%	18%	-	12%
MLT	-	-	-	-	-	-	100%	

Source: Companies, DBS Bank

Valuation

REIT	FYE	Last Price (S$)	Rec	12-mth Target Price (S$)	Total Return (%)	DPU (Scts) FY20F	FY21F	FY22F	2Yr CAGR	#REF!	Yield FY19/20F	FY20/21F	P/NAV (x)
MCT	Mar	2.24	BUY	2.40	11%	9.43	9.79	10.00	3.0%	4.2%	4.3%	4.4%	1.27
MAGIC	Mar	1.34	BUY	1.65	34%	7.9	8.0	8.1	1.4%	6.1%	6.2%	6.3%	0.94
MINT	Mar	2.34	BUY	2.50	12%	12.2	12.4	12.7	2.0%	5.2%	5.3%	5.4%	1.54
MLT	Mar	1.56	BUY	1.85	25%	8.0	8.4	8.6	3.4%	5.2%	5.4%	5.5%	1.34

Source: DBS Bank

Mapletree Logistics Trust (MLT)

Majority of markets expected to remain stable; trade war impact, if any, likely to be delayed. The Manager continues to see stability in its major markets. Based on our estimates, MLT derives c.78% of its income from "developed markets" in Asia which mainly consists of Singapore (c.37% of revenues) Hong Kong (c.23%), Japan (c.10%), and Australia (c.8%) which offer stable returns. China (c.10% of revenues and growing) will continue to see improvement especially in Tier 1 cities while selected Tier 2 cities face supply risk.

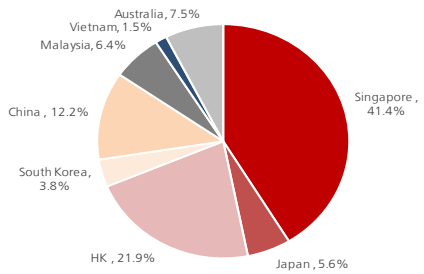
Benefiting from trade war as supply chain shifts. While the trade war has been an overhang for trade growth globally, the Manager sees that demand for space is moving out from China to ASEAN, particularly Malaysia and Vietnam, as selective tenants are expanding in those regions. There has not been any noticeable slowdown in demand, and any impact may be delayed as 3PLs (most of its tenant base) are locked-in their existing contracts which offers resiliency.

Acquisition opportunities to drive growth. The Manager intends to build on the strong acquisition momentum in the last financial year. While third party acquisitions are generally opportunistic in nature, MLT has a key deal flow pipeline from its Sponsor. Looking ahead, markets like China, Vietnam and Malaysia present the most opportunities to grow inorganically. From third parties, the Manager is keen to selectively acquire in Australia and Korea. The Manager highlighted the possibility of development opportunities in Australia, which in our view offers better risk-reward as the assets typically offer more stable returns through longer WALEs. New markets that MLT is keen to enter include India and Indonesia (with Sponsor's backing) given the strong demand-supply dynamics, supported by a lack of Grade A warehouses.

Asset recycling opportunities within its portfolio. The Manager continues to look at opportunities to optimise portfolio yields by redevelopment of older specification properties to transform to either ramp-up or modern logistics warehouses. For non-core assets, the Manager would look to realise gains from properties deemed to deliver minimal returns. The REIT has realised c.S$ 210m of value from a portfolio of properties in Japan and will continue to look at other opportunities in the near future.

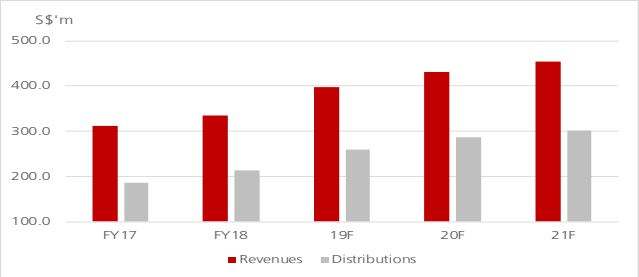
Minimal interest rate risk. MLT's gearing of c.36.7% is at the lower end of its historical range, arming the REIT with acquisition capacity to grow inorganically. Interest rate is substantially hedged (c.83% of cost is hedged/fixed) and the REIT has a high level of foreign debt to limit forex exposure.

Breakdown of revenues



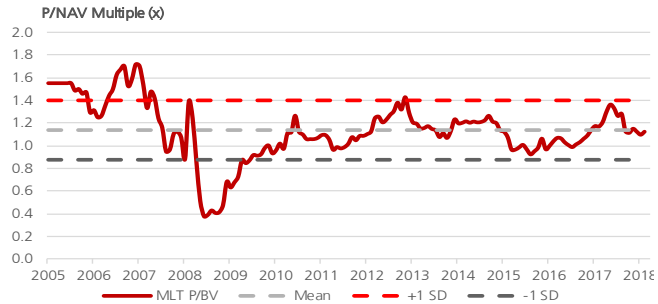
Source: DBS Bank

Revenue and distribution growth profile



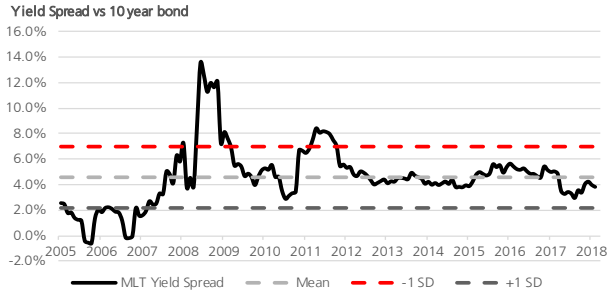
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield spread



Source: DBS Bank

Mapletree Industrial Trust (MINT)

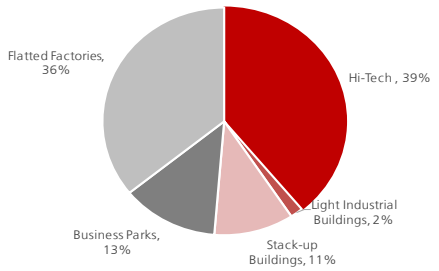
More cautious outlook, but diversity enables MINT to ride through market uncertainties. With the recent weak macro numbers, the Manager has turned more cautious in terms of outlook. Furthermore, feedback on the ground is also that most tenants are taking more precautionary measures in terms of expansion or taking a longer time to commit. This has been evident mainly at its flatted factory properties where tenants are generally small-medium enterprises. That said, the Manager does not expect any significant dip in occupancies and will maintain a flexible rental strategy to maintain occupancy rates, which is positive. While there is near term pressure on reversions, we see buffer from rental spreads going into 2020 with expiring rents either flat/lower than current market rents.

Emerging data-center play. The Manager disclosed that the REIT will look to grow its overseas data-center exposure to c.30% of assets (from c.20% previously) The REIT already has a foothold in a portfolio of data-centers in the USA, and the Manager is keen to deepen its exposure through more third party deals and potentially the 60% stake in the portfolio held by its Sponsor. Apart from the USA, the REIT is also keen to cast its net wider to key cities in Europe, UK and developed markets in Asia. The Manager plans to add more "data-center shells" to the REIT, which are less volatile and lowers operational risk.

New development projects to drive more substantial growth profile in the medium term. The Manager's focus is to complement a steady organic growth profile through selective development opportunities or acquisitions. This is the strategy for the planned redevelopment of Kolam Ayer cluster 2 where the flatted factory will be converted into a hi-specification property over the next 2 years. This redevelopment will also allow the Manager to tap on the site's un-utilised plot ratio (+0.3m sqft of GFA from maximising plot ratio from 1.5x to 2.5x) which over time will be a key driver to earnings and NAV uplift in our view. While there may be near term earnings downside (c.2%) as the property undergoes redevelopment, the completion of the recent development at 7 Tai Seng will help to compensate the earnings loss.

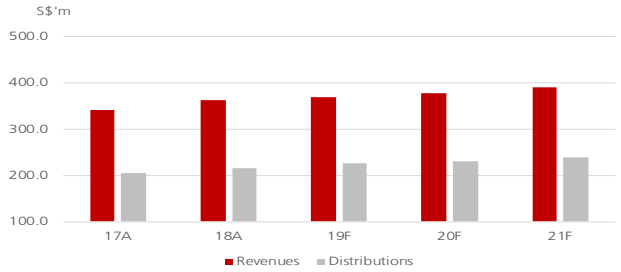
Minimal refinancing risk. With interest rates expected to remain stable going into 2020, the Manager has maintained its proactive measures to lock-in interest rates with close to c.78% of its debt hedged as of 1QFY20. All-in interest cost is expected to trend higher from the current c.3.0% but at a measured pace.

Sector exposure



Source: DBS Bank

Revenue and distribution growth profile



Source: DBS Bank

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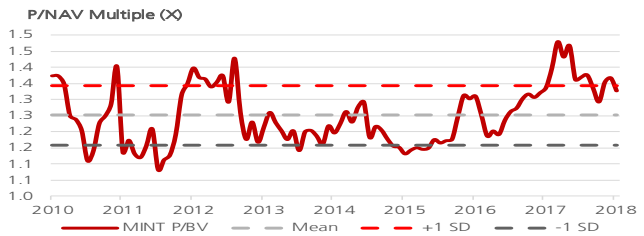
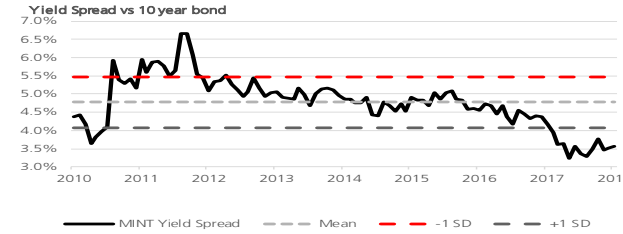


Source: DBS Bank

Yield spread



Source: DBS Bank

Mapletree Commercial Trust (MCT)

VivoCity still drawing crowds; completion of AEI to draw crowds and sales. Despite ongoing challenges in the retail sector, fortunately for MCT, VivoCity (contributes c.46% of the portfolio revenues) remains a choice location for both retailers and shoppers, and where most retailers will want to maintain a presence. The most recent asset enhancement initiative (AEI) including involving the new library at level 3, and a change in tenant from Giant to NTUC Fairprice will draw shoppers (especially families) to drive the next leg of growth for VivoCity.

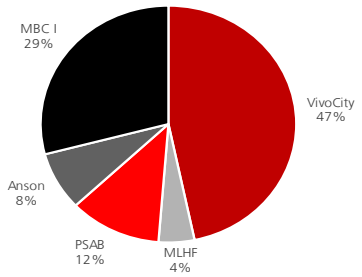
In terms of tenant sales and traffic, we expect VivoCity to show improvement as NTUC Fairprice is a stronger operator and will draw more traffic. The longer term upside will come from rejuvenation of the Greater Southern Waterfront (GSW) and we see VivoCity as the bedrock of the redevelopment and rejuvenation of Pulau Brani and Sentosa in the longer term.

Office and Business Park portfolio remains stable. There was a slight shift in occupancy rates in recent quarters due to tenancy movements. MCT has been successful in back-filling the vacated office space especially at Mapletree Anson (92.7% as of 1QFY20) and PSA Building (90.6% as of 1QFY20) and will see occupancy rates head towards 100% given higher pre-commitment levels. Rental reversions while flattish at 0.3% as of 1QFY20 should remain stable going forward. The lease expiry of the anchor tenant (PSA) at PSA Building in Aug-20 is noted.

Catalyst from potential injection of Mapletree Business City Phase 2. With an attractive pipeline of potential assets that could be injected into the REIT, MCT intends to remain a Singapore-focused REIT, one of few S-REITs in Singapore with a "pure-play status". The clarity in earnings and strategy to investors could warrant a valuation premium for MCT.

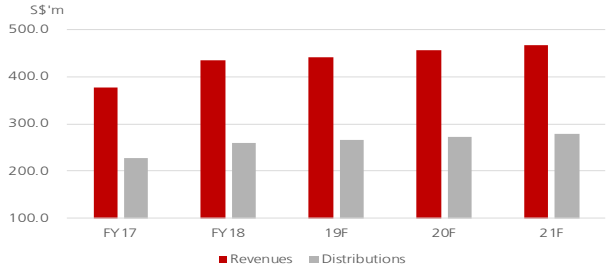
In the medium term, the anticipated acquisition of Mapletree Business City Phase 2, a c. 1.2m sq ft business park anchored by key tenants like Google will be widely seen as a positive accretion to the REIT as it adds resilience to the stock.

Asset contribution (as of 1QFY19)



Source: DBS Bank

Revenue and distribution growth profile



Source: DBS Bank

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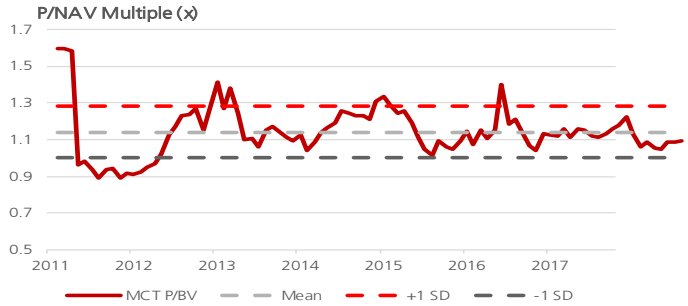
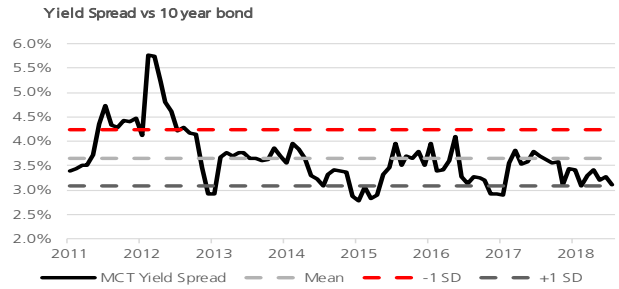


Source: Bloomberg Finance L.P., DBS Bank

Yield spread



Source: Bloomberg Finance L.P., DBS Bank

Mapletree North Asia Commercial Trust (MNACT)

Festival Walk to remain resilient; should ride through the current ongoing HK protest well. Festival Walk is one of the top performing retail malls in HK and contributes close to c.60% of revenues, and will continue to be a key driver for the REIT in the medium term. While there has been some uncertainty regarding the impact of the ongoing protest in Hong Kong on Festival Walk, the manager has not seen any direct disruption at this point.

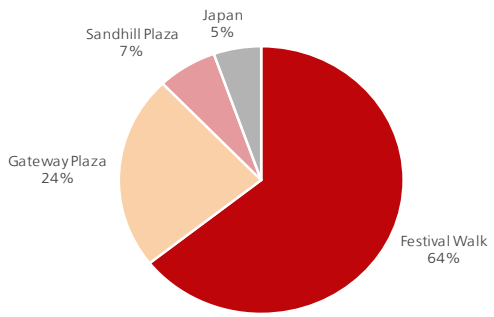
While there could be some impact on shopper traffic in the near term, the portfolio gross turnover (GTO) which is directly linked to tenants' sales is minimal at c.1.8% of portfolio revenues, which we believe is manageable. Moreover, Festival Walk's positioning as a "family themed" mall, with regular marketing events limits the impact on volatility from tourists to Hong Kong (c.10% of exposure to tourists).

Properties in China to see stable returns. The REIT's China properties – Gateway Plaza in Beijing and Sandhill Plaza in Shanghai - are expected to deliver stable returns. Gateway Plaza's rental reversionary outlook is likely to be flattish/slight negative as rentals have been marked-to-market while occupancy rates have remained high at c.97.2%. We believe Sandhill Plaza's reversionary trend is expected to remain positive at >15% as leases remain below market rates. While the RMB has weakened, the currency impact is likely to be compensated by the strong HKD which contributes the lion's share to its revenues.

Improved visibility from Japan. We see the recent acquisition of a portfolio of commercial properties in Japan to be value accretive to the REIT, boosting income stability through lengthening the portfolio weighted average lease expiry (WALE) and diversify its earnings base. In terms of growth, the Manager has been able to achieve positive rental reversions for leases that have expired.

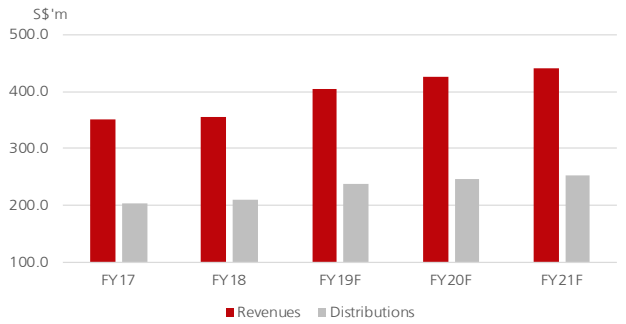
Target to grow the portfolio in key markets. MNACT has the first right of refusal (ROFR) over several properties from its sponsor, the Mapletree Group in Asia. The Manager is looking at potential acquisition opportunities in cities like Beijing, Shanghai, Guangzhou, and Chongqing which offer a long term growth runway.

Country exposure (1Q19)



Source: DBS Bank

Revenue and distribution growth profile



Source: DBS Bank

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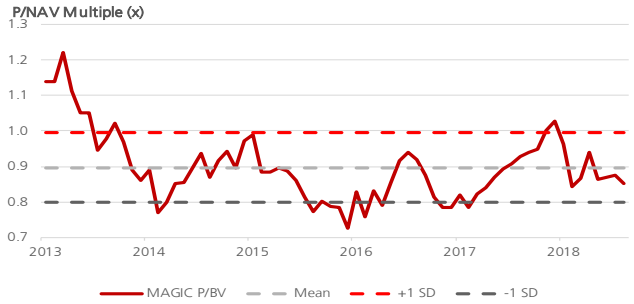
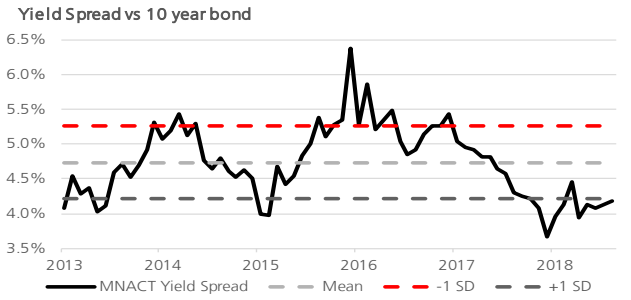


Source: Bloomberg Finance L.P., DBS Bank

Yield spread



Source: Bloomberg Finance L.P. DBS Bank

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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8. Su Shan TAN, a member of DBS Group Mgt Committee, is a Director of Mapletree North Asia Commercial Trust as of 2 Sep 2019

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