

CREDIT OPINION

23 May 2019

Update

✓ Rate this Research

RATINGS

Mapletree Commercial Trust

| | |
|------------------|-----------------------------|
| Domicile | Singapore |
| Long Term Rating | Baa1 |
| Type | LT Issuer Rating - Dom Curr |
| Outlook | Stable |

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Mapletree Commercial Trust

Update to credit analysis

Summary

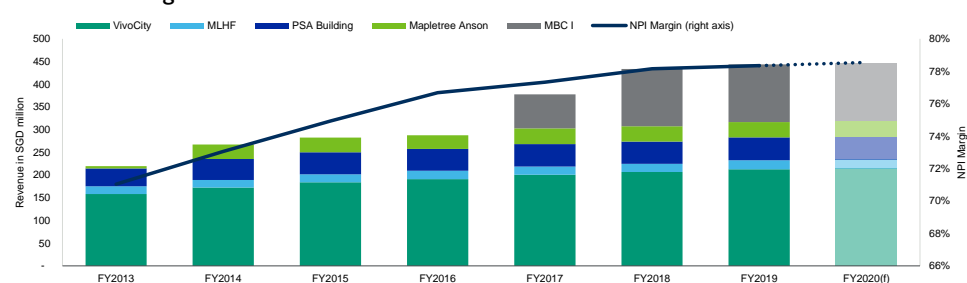
Mapletree Commercial Trust's (MCT) Baa1 issuer rating reflects its 1) recurring income from a portfolio of good quality commercial properties in Singapore with a diversified tenant profile; (2) improved portfolio diversification and earnings growth following the acquisition of Mapletree Business City I (MBC I) in 2016; and (3) track record of prudent financial management and strong financial flexibility

MCT's rating also incorporates the support of its financially strong sponsor, Mapletree Investments Pte. Ltd (Mapletree Investments), because the trust can leverage its sponsor's expertise, track record and strong network of relationship banks.

At the same time, the rating remains constrained by MCT's exposure to lease expiry risk, reliance on VivoCity for over 45% of its net property income and moderate credit metrics. It is also constrained by the inherent liquidity risks associated with Singapore's real estate investment trusts (REITs) as a result of their high dividend payout ratios and minimum cash balances.

Exhibit 1

MCT's revenue growth also benefits from asset diversification



Sources: Company data, Moody's Investors Service estimates

Credit strengths

- » Stable operating track record with a good-quality asset portfolio
- » Improved asset diversification following the acquisition of MBC I in August 2016
- » Strong sponsor support, with good access to capital and a ready pipeline of assets for growth

Credit challenges

- » Moderate credit metrics
- » Exposure to lease expiry risk given shorter lease terms for retail leases

Rating outlook

The outlook is stable, reflecting our expectation that MCT will continue to generate stable cash flow from its current portfolio, driven by steady occupancy levels and manageable lease expiries.

Factors that could lead to an upgrade

Upward ratings pressure will emerge if MCT's financial profile improves, such that its adjusted debt/total deposited assets improves to below 35%, adjusted net debt/EBITDA falls below 6.0x, and adjusted EBITDA/interest coverage improves to above 4.0x on a sustained basis.

Factors that could lead to a downgrade

Downgrade rating pressure will emerge if (1) the operating environment deteriorates, leading to higher vacancy levels and declines in MCT's operating cash flow; (2) it does not comply with the regulatory debt/asset limit of 45%; or (3) the trust's financial metrics weaken, with adjusted net debt/EBITDA above 8.0x-8.5x or adjusted EBITDA/interest coverage below 3.0x.

Key indicators

Exhibit 2

MCT's key indicators and projections

| | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 (F) | FY2021 (F) |
|---------------------------------------|--------|--------|--------|--------|--------|------------|------------|
| Total Deposited Assets (SGD Million) | 4,254 | 4,406 | 6,391 | 6,727 | 7,088 | 7,096 | 7,117 |
| EBITDA (SGD Millions) | 191 | 200 | 265 | 308 | 315 | 319 | 319 |
| Debt / Total Deposited Assets | 36.4% | 35.2% | 36.4% | 34.6% | 33.2% | 33.4% | 33.6% |
| Net Debt / EBITDA | 7.8x | 7.5x | 8.6x | 7.4x | 7.3x | 7.3x | 7.4x |
| EBITDA / Interest expense | 5.7x | 5.2x | 5.0x | 4.9x | 4.5x | 4.5x | 4.5x |
| Secured Debt / Total Deposited Assets | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

All figures and ratios calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. FY2019 denotes fiscal year ended 31 March 2019. LTM = Last 12 months.

Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Profile

MCT was listed on the Singapore Stock Exchange on 27 April 2011. At 31 March 2019, the trust had a portfolio of five properties in Singapore — across the retail, office and business park segments — with a combined appraised value of SGD7.0 billion. The trust's sponsor, Mapletree Investments, is a wholly owned subsidiary of [Temasek Holdings \(Private\) Limited](#) (Aaa stable), which is in turn wholly owned by the [Government of Singapore](#) (Aaa stable). At 17 May 2019, Mapletree Investments held a 34.2% in MCT. MCT is managed by Mapletree Commercial Trust Management Ltd., while its properties are managed by Mapletree Commercial Property Management Pte. Ltd. Both management companies are wholly owned subsidiaries of Mapletree Investments.

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Detailed credit considerations

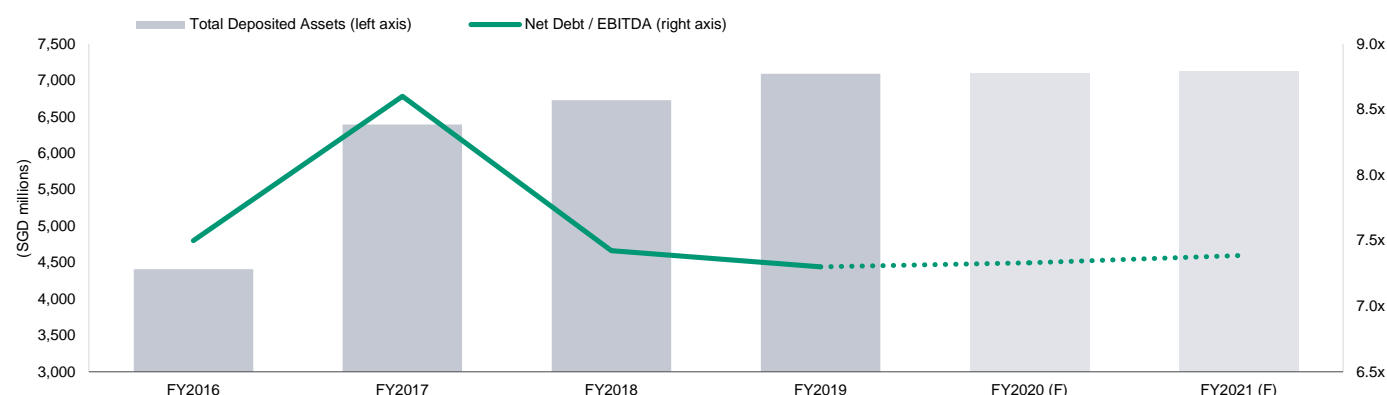
Moderate credit metrics supported by prudent financial policies

We expect MCT's moderate credit metrics will remain stable over the next 12-18 months, supported by recurring income from its asset portfolio and continued focus on prudent financial policies. We estimate MCT's adjusted net debt/EBITDA will stay at around 7.4x and its adjusted debt/deposited assets will be around 34% in FY2020-21.

At 31 March 2019, its adjusted net debt/EBITDA was 7.3x and adjusted debt/deposited assets was 33.2%, which continue to support its Baa1 issuer rating (Exhibit 3). The spike in leverage of 8.6x in FY2017 was due to a timing mismatch where the trust had taken on borrowings to fund the MBC I acquisition, but yet to enjoy a full year of earnings accretion.

Exhibit 3

MCT's leverage will remain largely stable



All figures and ratios calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. FY2019 denotes fiscal year ended 31 March 2019. LTM = Last 12 months.

Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

MCT completed the acquisition of the office and business park components of MBC I for a total cost of SGD1.84 billion in August 2016. The transaction was funded with equity proceeds (including acquisition fees in units) of SGD1.04 billion and unsecured bank facilities of SGD800 million.

MCT's decision to fund the acquisition cost with 57% of equity and 43% of debt demonstrates its strong financial discipline, as well as prudent capital management, and mirrors its 2013 acquisition of Mapletree Anson, which was also funded with a good mix of debt and equity.

We also expect MCT will continue to be prudent in financing such transactions as it has in the past, with a good mix of debt and equity, such that its leverage metrics remain largely stable on a look-through basis.

Stable operating track record with a good-quality asset portfolio

At 31 March 2019, MCT had a portfolio of five properties: (1) VivoCity, Singapore's largest shopping mall; (2) MBC I, comprising one office tower and three business park blocks; (3) PSA Building, a 40-storey integrated development with a three-storey retail center, Alexandra Retail Centre; (4) Mapletree Anson, a 19-storey premium office building with Grade-A building specifications, located in Singapore's central business district (CBD); and (5) Bank of America Merrill Lynch HarbourFront, a six-storey office building.

At 31 March 2019, the properties had a combined net lettable area of 3.9 million square feet and a total appraised value of SGD7.0 billion.

MCT has a track record of strong operating performance since its listing. The trust's active management and leasing of its properties have maintained its portfolio occupancy above 90% and led to consistent growth in its revenue, net property income (NPI) and NPI margin. Over the last eight years, the trust's revenue grew at a compounded annual growth rate of 12.9%, driven by strong organic growth in rental rates, and asset enhancement initiatives as well as the acquisitions of Mapletree Anson and MBC I. Additionally, the trust's NPI margin improved to 78.3% in FY2019 from 70.0% in FY2012.

In FY2019, MCT's NPI grew 2.6% to SGD347.6 million from the same period a year earlier, largely due to higher gross rental income from new and renewed leases.

In Q4 FY2019, MCT's actual portfolio occupancy increased to 98.1% from 96.1% in the same period a year ago, mainly driven by the completion of VivoCity's basement 1 extension in June 2018 and the opening of the library at Vivocity in January 2019. VivoCity's actual occupancy increased to 99.4% at 31 March 2019, compared to 93.1% one year ago. The improvement in portfolio occupancy was also supported by the transitional vacancy in Mapletree Anson which was backfilled. As a result, Mapletree Anson's occupancy at 31 March 2019 was 96.8% versus 86.6% in the previous year.

Improved asset diversification following the MBC I acquisition

MCT's exposure to high asset concentration risk from its key property, VivoCity, has declined following its acquisition of MBC I in August 2016. With this improvement, VivoCity remains MCT's largest asset, accounting for 46.7% of its NPI in FY2019 and 45.5% of its portfolio valuation at 31 March 2019, compared to 65.9% and 59.8% respectively, prior to the acquisition.

At the same time, we recognize that MCT's concentration risk from VivoCity is partially mitigated by its diverse base of good-quality tenants across multiple sectors. In FY2019, the trust's the top 10 tenants contributed around a quarter of its portfolio gross rental income. VivoCity also has a large base of tenants, with a diverse trade mix such as food and beverage, fashion, lifestyle and hypermart/ departmental stores.

VivoCity has demonstrated significant improvement in its operating performance over the past seven years. The mall's gross revenue grew steadily at a compounded annual growth rate of 5.7% in FY2012-19, while its committed occupancy rate remained close to 100%. While its tenant sales declined 2.0% to SGD939.1 million in FY2019 from a year ago, this was largely attributable to the downtime from enhancement work. We expect tenant sales to gradually improve after the completion of the hypermarket changeover by 2Q FY2020.

MBC I accounted for 28.7% of MCT's total portfolio assets by valuation 31 March 2019 and 30.0% of its NPI in FY2019. MBC I is one of the largest integrated business hubs in Singapore and is leased to good-quality international tenants.

The trust's assets are largely concentrated in the southern Singapore precincts of HarbourFront or Alexandra. The only asset located within the CBD is Mapletree Anson.

Exposure to lease expiry risk

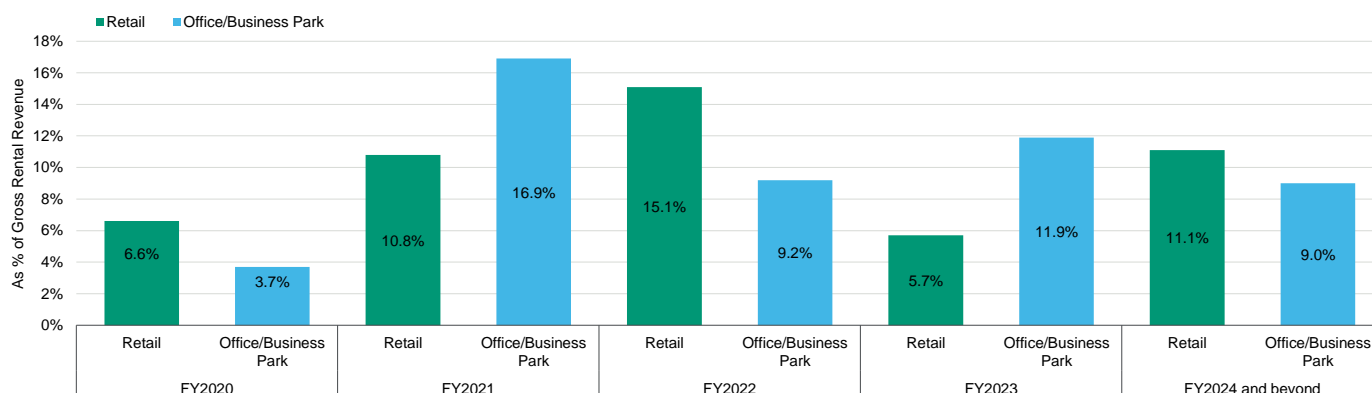
At 31 March 2019, MCT had a modest portfolio weighted-average lease expiry (WALE) of 2.9 years. The trust's retail leases had a WALE of 2.8 years, while the WALE of the office/business park leases was three years, in line with leases within these property segments.

Nonetheless, MCT will continue to be exposed to lease expiry risk, given the short-term nature of its retail leases. In FY2020 and FY2021, 10.3% and 27.7% of MCT's leases will come due.

The bulk of MCT's lease expiries relate to its retail leases, which are largely at VivoCity. While the trust is exposed to lease expiry risk, this is partly mitigated by MCT's established track record of retaining existing tenants and attracting new tenants, such that VivoCity's committed occupancy is consistently near 100%. Despite soft consumer demand and sluggish retail leasing demand in Singapore, VivoCity's positioning as a destination mall and the lack of competition or new supply in the vicinity will maintain its occupancy and rental rates over the next 12-18 months.

Exhibit 4

MCT's lease expiry profile as of 31 March 2019



Source: Company data

On the office front, we believe there is limited upward pressure on rents, given tepid leasing demand and continued supply glut in the CBD. Nonetheless, we do not expect office rents to materially weaken over the next 12 months because we believe rental rates that have declined over the last few years have largely bottomed out.

Nevertheless, the negative effect on MCT's office properties is partially mitigated because (1) we expect the trust's office buildings located outside the CBD to remain largely resilient to the strain on rental rates; and (2) only 3.7% of office/business park leases are expiring in FY2020. In addition, given that new supply in the business parks space remains muted and business parks in the city fringe continue to attract more demand, we expect MCT's business parks to continue to maintain strong occupancy and rental rates.

Strong sponsor, support, with good access to capital and a ready pipeline of assets for growth

MCT's sponsor is Mapletree Investments, a wholly owned subsidiary of Temasek Holdings (Private) Limited. Mapletree Investments held a 34.2% stake in MCT at 17 May 2019. The sponsor has a proven track record in real estate capital management and has shown commitment in supporting its sponsored REITs. MCT's relationship with Mapletree Investments also helps facilitate the trust's access to banks and capital markets, expand its portfolio and minimize development risks.

Furthermore, the sponsor has granted MCT the right of first refusal over income-producing properties located in Singapore that are used primarily for office and retail purposes.

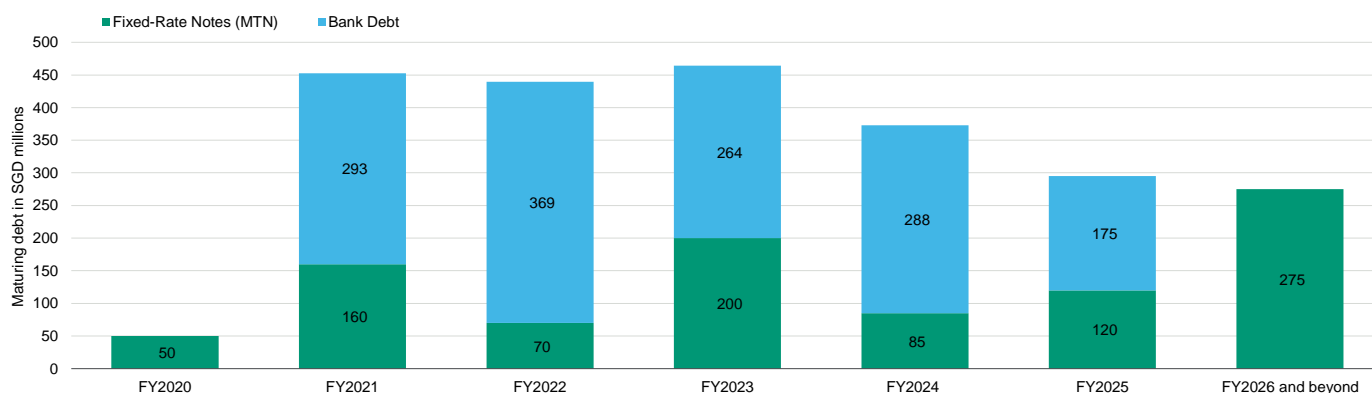
The largest property in the pipeline is MBC II, with a net lettable area of more than 1.1 million square feet. Given the size of the asset, we expect the trust to consider such an acquisition only after its occupancy and rental rates are stabilized at MBC II. We also expect it to fund such acquisitions with a prudent mix of debt and equity.

Liquidity analysis

MCT has a good liquidity position. At 31 March 2019, MCT had cash balances of SGD49 million compared to SGD50 million of bank loans coming due within the next 12 months. In addition, it had committed and undrawn bank facilities of SGD232 million.

The trust has a prudent and proactive approach towards addressing its debt maturities. It typically maintains a balanced debt maturity profile with no more than 20% of debt maturing in each financial year. In FY2019, MCT refinanced SGD197.6 million of debt in advance of maturity. The trust's ability to refinance its maturities ahead of time continues to highlight its good access to banking lines and debt markets.

Exhibit 5

MCT has a well-balanced debt maturity profile

Source: Company data

At 31 March 2019, MCT had a weighted-average debt maturity of 3.6 years. The trust also had a weighted-average cost of debt of 2.97%, and 85.0% of its debt is on a fixed-rate basis. MCT's financial flexibility is excellent, given all its assets are unencumbered.

Despite the high dividend payout ratio required of Singapore-REITs, which results in a minimum cash balance, we believe MCT will have good access to capital, given its association with Mapletree Investments.

Rating methodology and scorecard factors

Mapping MCT on our rating methodology for REITs and Other Commercial Property Firms (September 2018) results in a scorecard-indicated rating of A3 at 31 March 2019 and in our 12-18 month forward view. The final Baa1 issuer rating is one-notch lower than the scorecard-indicated rating, largely due to the trust's reliance on two assets for over 75% of net property income, as well as its shorter weighted average lease expiry compared to other peers.

Exhibit 6

Mapletree Commercial Trust

| REITs and Other Commercial Property Firms Industry Grid [1][2] | Current FYE 3/31/2019 | | Moody's 12-18 Month Forward View As of 5/15/2019 | |
|--|--------------------------|-------|--|-------|
| | Measure | Score | Measure | Score |
| Factor 1: Scale (5%) | | | | |
| a) Gross Assets (USD Billion) | \$5.1 | Baa | \$5.1 | Baa |
| Factor 2 : Business Profile (25%) | | | | |
| a) Market Positioning and Asset Quality | Baa | Baa | Baa | Baa |
| b) Operating Environment | Baa | Baa | Baa | Baa |
| Factor 3 : Liquidity and Access To Capital (25%) | | | | |
| a) Liquidity and Access to Capital | Baa | Baa | Baa | Baa |
| b) Unencumbered Assets / Gross Assets | 100.0% | Aaa | 100.0% | Aaa |
| Factor 4 : Leverage and Coverage (45%) | | | | |
| a) Total Debt + Preferred Stock / Gross Assets | 33.2% | Baa | 33.4% | Baa |
| b) Net Debt / EBITDA | 7.3x | Ba | 7.3x | Ba |
| c) Secured Debt / Gross Assets | 0.00% | Aaa | 0.00% | Aaa |
| d) Fixed-Charge Coverage | 4.5x | A | 4.5x | A |
| Rating: | | | | |
| a) Indicated Rating from Grid | | A3 | | A3 |
| b) Actual Rating Assigned | | | | Baa1 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Appendix

Exhibit 7

Peer comparison table

Mapletree Commercial Trust

| (in USD millions) | Mapletree Commercial Trust | | | Mapletree North Asia Commercial Trust | | | Champion Real Estate Investment Trust | | | Suntec Real Estate Investment Trust | | |
|---------------------------|----------------------------|------------|------------|---------------------------------------|------------|------------|---------------------------------------|------------|------------|-------------------------------------|------------|------------|
| | Baa1 Stable | | | Baa1 Stable | | | Baa1 Stable | | | Baa3 Stable | | |
| | FYE Mar-17 | FYE Mar-18 | LTM Dec-18 | FYE Mar-17 | FYE Mar-18 | LTM Dec-18 | FYE Dec-16 | FYE Dec-17 | FYE Dec-18 | FYE Dec-16 | FYE Dec-17 | FYE Dec-18 |
| Real Estate Gross Assets | \$4,584 | \$5,141 | \$4,960 | \$4,673 | \$4,974 | \$5,420 | \$8,819 | \$10,036 | \$10,894 | \$6,403 | \$7,033 | \$7,094 |
| Debt / RE Gross Assets | 36.4% | 34.6% | 34.8% | 39.2% | 36.2% | 39.0% | 21.6% | 18.8% | 17.6% | 37.4% | 36.0% | 37.7% |
| Net Debt / EBITDA | 8.6x | 7.4x | 7.4x | 8.8x | 8.2x | 9.3x | 7.8x | 7.1x | 6.4x | 11.8x | 11.3x | 12.6x |
| Sec. Debt/RE Gross Assets | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 6.1% | 16.0% | 13.0% | 11.1% | 3.9% | 3.9% | 3.8% |
| EBITDA/Fixed Charges | 5.0x | 4.9x | 4.7x | 3.6x | 3.8x | 4.0x | 5.1x | 5.5x | 4.9x | 3.6x | 3.8x | 3.3x |

Source: Moody's Financial Metrics™

Exhibit 8

MCT's Moody's-adjusted debt breakdown

| (in SGD Millions) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | LTM Dec-2018 |
|-----------------------|--------|--------|--------|--------|--------|--------------|
| As Reported Debt | 1,587 | 1,547 | 1,552 | 2,330 | 2,329 | 2,351 |
| Moody's-Adjusted Debt | 1,587 | 1,547 | 1,552 | 2,330 | 2,329 | 2,351 |

Source: Moody's Financial Metrics™

Exhibit 9

MCT's Moody's-adjusted EBITDA breakdown

| (in SGD Millions) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | LTM Dec-2018 |
|-------------------------|--------|--------|--------|--------|--------|--------------|
| As Reported EBITDA | 176 | 192 | 195 | 261 | 309 | 308 |
| Unusual | 0 | -1 | 5 | 5 | -2 | 4 |
| Moody's-Adjusted EBITDA | 176 | 191 | 200 | 265 | 308 | 312 |

Source: Moody's Financial Metrics™

Ratings

Exhibit 10

| Category | Moody's Rating |
|--|----------------|
| MAPLETREE COMMERCIAL TRUST | |
| Outlook | Stable |
| Issuer Rating -Dom Curr | Baa1 |
| Senior Unsecured MTN -Dom Curr | (P)Baa1 |
| MAPLETREE COMM'L TRUST TREASURY CO. PTE. LTD. | |
| Outlook | Stable |
| Bkd Senior Unsecured | Baa1 |

Source: Moody's Investors Service

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1175664