

CREDIT OPINION

2 October 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 following rating affirmation

Summary

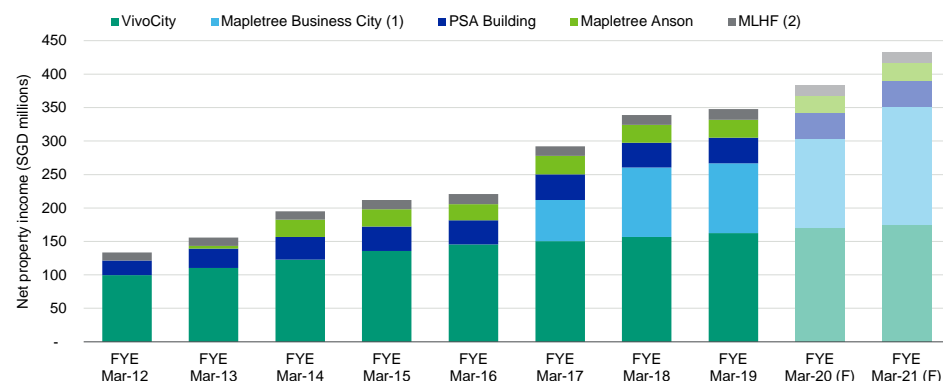
[Mapletree Commercial Trust's](#) (MCT) Baa1 rating reflects its (1) recurring income from a portfolio of good quality commercial properties in Singapore with a diversified tenant profile; (2) track record of prudent financial management as demonstrated by funding of acquisitions with a balanced mix of debt and equity; and (3) strong financial flexibility.

MCT's rating also incorporates the support of its financially strong sponsor, Mapletree Investments Pte. Ltd, 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 (1) MCT's reliance on two assets for most of its earnings; (2) its exposure to lease expiry risk; and (3) the inherent liquidity risks associated with S-REITs as a result of their high dividend payout ratios and minimum cash balances.

Exhibit 1

MCT's recurring income continues to grow but reliance on key assets remain



(1) Data from FYE Mar-20 onwards reflects earnings from Phase 1 and Phase 2 of Mapletree Business City. (2) MLHF refers to Bank of America Merrill Lynch Harbourfront.

Sources: Company data, Moody's Investors Service estimates

Credit strengths

- » Good-quality asset portfolio with stable operating track record
- » Credit metrics will stay within rating parameters following its proposed acquisition of Mapletree Business City (Phase 2)
- » Support from a strong and committed sponsor
- » Refinancing risk mitigated by its track record of access to funding

Credit challenges

- » Continue to rely on two assets for most of its earnings
- » Liquidity is weak owing to debt maturities in August 2020

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

MCT's rating could be upgraded if its credit metrics improve, with adjusted debt/total deposited assets falling below 35%, adjusted net debt/EBITDA falling below 6.0x, and adjusted EBITDA/interest coverage staying above 4.0x on a sustained basis.

Factors that could lead to a downgrade

The rating could be downgraded if (1) the operating environment deteriorates, leading to higher vacancy levels and declines in operating cash flow; (2) it does not comply with the regulatory debt/asset limit of 45%; or (3) the trust's credit metrics weaken, such that adjusted net debt/EBITDA rises above 8.5x or adjusted EBITDA/interest coverage falls below 3.0x.

Key indicators

Exhibit 2

Mapletree Commercial Trust

SGD millions	FYE Mar-18	FYE Mar-19	LTM Jun-19	FYE Mar-20 (F)	FYE Mar-21 (F)
Total deposited assets	6,727	7,088	7,083	8,975	8,991
EBITDA	308	316	318	333	400
Debt / Total deposited assets	35%	33%	33%	34%	34%
Net debt / EBITDA	7.4x	7.3x	7.3x	9.0x	7.6x
EBITDA / Interest expense	4.9x	4.5x	4.5x	4.1x	4.4x
Secured debt / Total deposited assets	0%	0%	0%	0%	0%

All figures and ratios calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer. FYE = Financial year-end. LTM = Last twelve months.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

Mapletree Commercial Trust (MCT) was listed on the Singapore Stock Exchange on 27 April 2011. At 31 August 2019, the trust had a portfolio of five properties in Singapore — across the retail, office and business park segments — with a combined net lettable area of 3.8 million square feet and a total appraised value of SGD7.4 billion.

The trust's sponsor, Mapletree Investments Pte. Ltd, 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 31 August 2019, Mapletree Investments held a 34% stake 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.

Detailed credit considerations

Good-quality asset portfolio with stable operating track record

At 30 June 2019, MCT had a portfolio of five properties: (1) VivoCity, Singapore's largest shopping mall; (2) Mapletree Business City (Phase 1), 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.

On 27 September 2019, MCT announced that it plans to acquire Mapletree Business City (Phase 2) and the common premises of Mapletree Business City development for a total acquisition cost of SGD1,576 million. Post the acquisition, the trust's enlarged portfolio will have a combined net lettable area of 5 million square feet and a total appraised value of SGD8.9 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%. At the same time, strong organic growth in rental rates, asset enhancement initiatives and the acquisition of Mapletree Anson and Mapletree Business City (Phase 1) have led to consistent growth in its revenue and net property income (see Exhibit 1).

We expect the trust's revenue and net property income will grow by around 25% in the fiscal year ended 31 March 2021 (FY2021) from FY2019 underpinned by the contribution from Mapletree Business City (Phase 2).

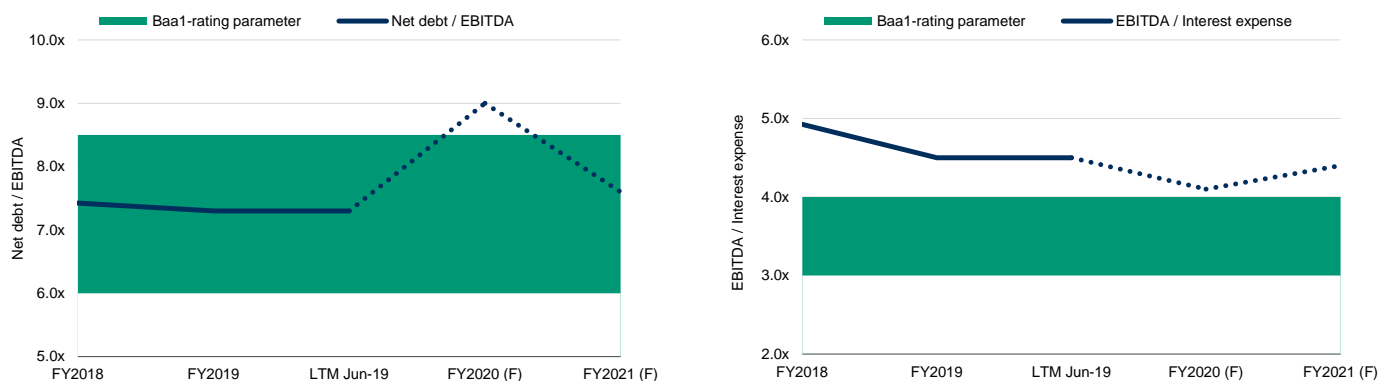
At 30 June 2019, MCT's actual portfolio occupancy increased to 97.3% from 96.4% a year ago, mainly driven by the completion of VivoCity's basement 1 extension in June 2018 and the opening of the library at VivoCity in January 2019. The trust's committed portfolio occupancy was 98.9% largely because of the transitional vacancy at Mapletree Anson.

At 30 June 2019, MCT's existing portfolio had a weighted-average lease expiry (WALE) of three years. The trust's retail leases had a WALE of 2.8 years, while the WALE of its office/business park leases was 3.2 years. Although MCT's lease expiries are broadly in line with the property segments it operates in, the trust is exposed to lease expiry risk given the short-term nature of its retail leases.

Credit metrics will stay within rating parameters following its proposed acquisition of Mapletree Business City (Phase 2)

We expect MCT's credit metrics following its proposed acquisition of Mapletree Business City (Phase 2) will remain within the parameters of its Baa1 rating -- with net debt/EBITDA below 8.0x and EBITDA/interest expense above 4.0x on a normalized basis -- because the trust plans to fund the acquisition with a mix of debt and equity (see Exhibit 3). The spike in leverage in FY2020 is caused by a timing mismatch where the trust had taken on borrowings to fund the acquisition, but yet to enjoy a full year of earnings accretion.

Exhibit 3

MCT's credit metrics will remain within the parameters of its Baa1 rating

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

MCT plans to fund the acquisition with up to SGD800 million of unsecured debt facilities -- already committed by its banks -- and the remaining by fresh equity (including acquisition fees in units). The equity fund raising, excluding its sponsor's undertaking, is underwritten by banks.

The decision to fund the acquisition cost with debt and equity demonstrates MCT's strong financial discipline, as well as prudent capital management, and mirrors its 2013 acquisition of Mapletree Anson and 2016 acquisition of Mapletree Business City (Phase 1), which were also funded with a good mix of debt and equity.

Continue to rely on two assets for most of its earnings

MCT will remain exposed to high asset concentration risk from VivoCity and Mapletree Business City following its proposed acquisition of Mapletree Business City (Phase 2). On a pro-forma basis, VivoCity and Mapletree Business City will account for around 80% of MCT's enlarged portfolio by asset value and net property income. Nonetheless, in our view this risk is counterbalanced by the high quality and strategic positioning of both assets, given strong demand from a diversified tenant base.

VivoCity has a large and diverse tenant base consisting of food and beverage, fashion, lifestyle and hypermart/department stores. It attracts a wide range of shoppers from locals to tourists because of its position as a destination mall and location as the gateway to Sentosa island. VivoCity has a track record of maintaining near to 100% committed occupancy through economic cycles and rental reversions continue to be positive. We expect the lack of competition or new supply in VivoCity's vicinity will keep its occupancy stable and support modest growth in rent over the next 12-18 months.

Mapletree Business City is an integrated business hub comprising Grade A specification office and business park space in the city fringe. Decentralization and flight-to-quality have supported demand, underpinning close to 100% occupancy over the last five years. Further, as seen in previous peak-to-trough cycles, rents for business parks located in the city fringe have remained broadly stable versus Grade A office space in the central business district. Steady rents will support Mapletree Business City's income stability.

Support from a strong and committed sponsor

MCT's sponsor is Mapletree Investments, a wholly owned subsidiary of Temasek Holdings (Private) Limited. The sponsor has a proven track record in real estate capital management and has shown commitment in supporting its sponsored REITs through economic cycles.

MCT's relationship with Mapletree Investments helps facilitate the trust's access to banks and capital markets, expand its portfolio and minimize development risks. 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. After the acquisition of Mapletree Business City (Phase 2), there are six properties remaining in the pipeline.

Liquidity analysis

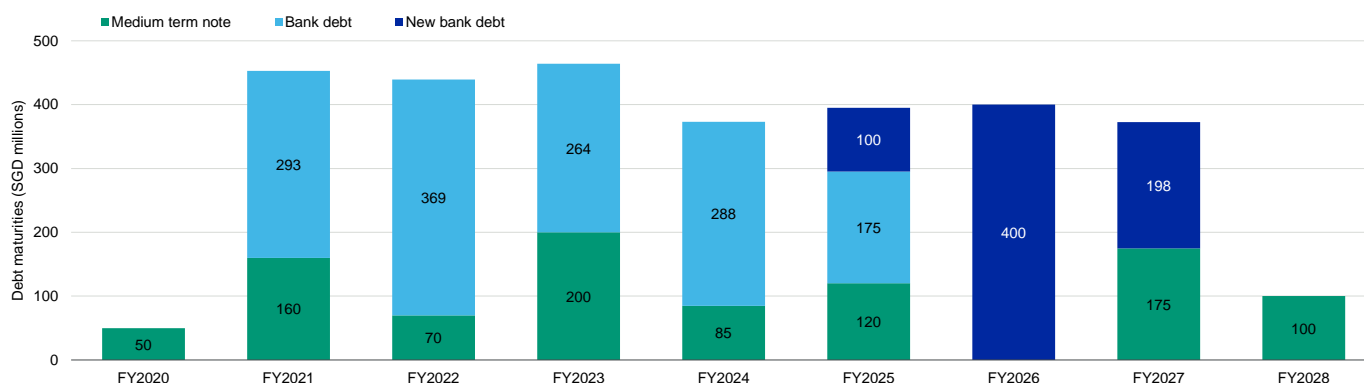
MCT's liquidity is inadequate over the next 12-18 months, owing to upcoming debt maturities of SGD50 million in November 2019 and SGD432 million in August 2020. Nonetheless, we expect refinancing risk will be mitigated by the trust's ability to draw on around SGD550 million of uncommitted facilities as of 30 June 2019, and its track record of access to funding.

At 30 June 2019, MCT had a weighted-average debt maturity of 3.4 years. Its debt maturity will lengthened because the new debt facilities to fund the proposed acquisition of Mapletree Business City (Phase 2) will have a maturity of five to seven years (see Exhibit 4).

Exhibit 4

MCT has a well-balanced debt maturity profile

Pro-forma 30 June 2019 for the acquisition of Mapletree Business City (Phase 2)



Source: Company data

We expect MCT's exposure to interest rate risk to be well mitigated by its high proportion of fixed-rate debt. At 30 June 2019, 80.5% of the trust's debt was on a fixed-rate basis. MCT's financial flexibility is excellent, given all its assets are unencumbered.

Environmental, social and governance considerations

In terms of environmental, social and governance (ESG) risks, we considered governance risk around related party transaction between MCT and its sponsor, which is mitigated by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through board consisting of majority independent directors. Further, there is an alignment of interest between MCT and its sponsor because the latter has maintained at least a 30% stake in the trust since its listing.

Rating methodology and scorecard factors

When mapped to our rating methodology for [REITs and Other Commercial Real Estate Firms](#), the scorecard-indicated outcome for MCT is A3 based on its financials for the 12 months ended 30 June 2019 and our 12-18-month forward view (see Exhibit 5). The actual Baa1 rating reflects the trust's reliance on two assets for around 80% of its net property income over the next 12-18 months.

Exhibit 5

Mapletree Commercial Trust

REITs and other commercial real estate firms industry grid [1]	Current LTM 6/30/2019		Moody's 12-18 month forward view As of 6/30/2019 [2]	
Factor 1: Scale (5%)	Measure	Score	Measure	Score
a) Gross assets (\$ billions)	\$5.2	Baa	\$6.7	Baa
Factor 2 : Business profile (25%)				
a) Market positioning and asset quality		Baa		Baa
b) Operating environment		Baa		Baa
Factor 3 : Liquidity and access to capital (25%)				
a) Liquidity and access to capital		Baa		Baa
b) Unencumbered assets / gross assets	100%	Aaa	100%	Aaa
Factor 4 : Leverage and coverage (45%)				
a) Total debt + preferred stock / gross assets	33%	Baa	34%	Baa
b) Net debt / EBITDA	7.3x	Ba	7.6x	Ba
c) Secured debt / gross assets	0%	Aaa	0%	Aaa
d) Fixed-charge coverage	4.5x	Baa	4.4x	Baa
Rating:				
a) Scorecard-indicated outcome		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

Ratings

Exhibit 6

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

Appendix

Exhibit 7

Peer comparison

(in \$ millions)	Mapletree Commercial Trust Baa1 Stable			Mapletree North Asia Commercial Baa1 Stable			Champion REIT Baa1 Stable		
	FYE Mar-18	FYE Mar-19	LTM Jun-19	FYE Mar-18	FYE Mar-19	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Jun-19
Real estate gross assets	\$5,141	\$5,242	\$5,245	\$4,974	\$5,774	\$5,803	\$10,036	\$10,894	\$11,253
Debt / Gross assets	35%	33%	33%	36%	37%	37%	19%	18%	17%
Net debt / EBITDA	7.4x	7.3x	7.3x	8.2x	8.9x	8.8x	7.1x	6.4x	6.1x
Secured debt / Gross assets	0%	0%	0%	0%	0%	0%	13%	11%	4%
EBITDA / Fixed charges	4.9x	4.5x	4.5x	3.8x	4.1x	4.1x	5.5x	4.9x	4.7x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial year-end. LTM = Last twelve months.

Source: Moody's Financial Metrics™

Exhibit 8

Mapletree Commercial Trust: Moody's-adjusted debt breakdown

(in SGD millions)	FYE Mar-17	FYE Mar-18	FYE Mar-19	LTM Jun-19
As reported debt	2,330	2,329	2,350	2,353
Non-standard adjustments	-	-	-	-
Moody's-adjusted debt	2,330	2,329	2,350	2,353

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial year-end. LTM = Last twelve months.

Source: Moody's Financial Metrics™

Exhibit 9

Mapletree Commercial Trust: Moody's-adjusted EBITDA breakdown

(in SGD millions)	FYE Mar-17	FYE Mar-18	FYE Mar-19	LTM Jun-19
As reported EBITDA	261	310	316	318
Unusual items	5	(2)	-	-
Moody's-adjusted EBITDA	265	308	316	318

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial year-end. LTM = Last twelve months.

Source: Moody's Financial Metrics™

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