

Rating Action: Moody's affirms MCT's Baa1 rating on acquisition of Mapletree Business City (Phase 2); outlook stable

30 Sep 2019

Singapore, September 30, 2019 -- Moody's Investors Service ("Moody's") has affirmed Mapletree Commercial Trust's (MCT) Baa1 issuer rating.

At the same time, Moody's has affirmed the (P)Baa1 senior unsecured ratings on the medium-term note programs of MCT and Mapletree Commercial Trust Treasury Company Pte. Ltd.

Moody's has also affirmed the Baa1 ratings on the senior unsecured notes drawn down from the program under Mapletree Commercial Trust Treasury. Mapletree Commercial Trust Treasury is a wholly-owned subsidiary of MCT and its notes and programs are guaranteed by MCT.

The outlook on all ratings is stable.

RATINGS RATIONALE

The affirmation follows MCT's announcement on 27 September 2019 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.

The transaction is subject to certain conditions, including the receipt of regulatory and unit holder approvals.

"The ratings affirmation reflects our expectation that MCT's credit metrics after the transaction will remain within the parameters of its Baa1 ratings -- with debt/deposited assets at around 35% and net debt/EBITDA below 8.0x on a normalized basis -- because the trust plans to fund the acquisition with a mix of debt and equity," says Jacintha Poh, a Moody's Vice President and Senior Credit Officer.

MCT plans to raise around SGD700 million of unsecured debt facilities -- already committed by its banks -- and around SGD900 million of fresh equity (including acquisition fees in units). The equity fund raising, excluding its sponsor's undertaking, is underwritten by banks.

"The proposed acquisition will increase MCT's reliance on income from its two largest assets -- VivoCity and Mapletree Business City -- but such risk is counterbalanced by the high quality and strategic positioning of both assets, with strong demand for their spaces from a diversified tenant base," adds Poh.

On a proforma basis, VivoCity and Mapletree Business City will account for around 80% of MCT's net property income.

Moody's expects MCT will immediately benefit from the recurring cash flow available from Mapletree Business City Phase 2, which had a committed occupancy rate of 99.4% and a weighted average lease expiry of 2.9 years at 31 August 2019. Moreover, around 97% of the asset's leases by net lettable area are embedded, with average of approximately 2.3% annual rental step-ups. Google, a subsidiary of Alphabet Inc. (Aa2 stable) is the largest tenant of Mapletree Business City Phase 2, occupying 58% of net lettable area.

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, Moody's expects 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.

In terms of environmental, social and governance (ESG) risks, Moody's has considered governance risk around related party transaction between MCT and its sponsor, Mapletree Investments Pte. Ltd, 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.

MCT's 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 and strong financial flexibility; and (3) 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 MCT's exposure to lease expiry risk, its reliance on two assets within its portfolio for around 80% of its net property income over the next 12-18 months, and the inherent liquidity risks associated with S-REITs as a result of their high dividend payout ratios and minimum cash balances.

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

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.

On the other hand, 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.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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 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.

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