

Rating Action: Moody's upgrades Mapletree North Asia Commercial Trust to Baa2; outlook stable

28 Jul 2022

Singapore, July 28, 2022 -- Moody's Investors Service has upgraded Mapletree North Asia Commercial Trust's (MNACT) issuer rating to Baa2 from Baa3.

At the same time, Moody's has upgraded to (P)Baa2 from (P)Baa3 the provisional ratings on MNACT's senior unsecured euro medium-term note (EMTN) program, and the guaranteed senior unsecured EMTN programs of Mapletree North Asia Commercial Trust Treasury Company (S) Pte Ltd and Mapletree North Asia Commercial Treasury Company (HKSAR) Limited.

Moody's has also upgraded to Baa2 from Baa3 the guaranteed senior unsecured rating on the notes under Mapletree North Asia Commercial Treasury Company (HKSAR) Limited's EMTN program. DBS Trustee Limited, in its capacity as the trustee of MNACT, unconditionally and irrevocably guarantees the notes of Mapletree North Asia Commercial Treasury Company (HKSAR) Limited and the programs of Mapletree North Asia Commercial Trust Treasury Company (S) Pte Ltd and Mapletree North Asia Commercial Treasury Company (HKSAR) Limited.

Moody's has changed the outlook on all ratings to stable from ratings under review.

These actions conclude the review initiated on 5 January 2022, following the announcement of a merger between MNACT and Mapletree Commercial Trust (MCT, Baa1 stable). The merger is to be effected through MCT's acquisition of all issued and paid-up units of MNACT, and MNACT will be delisted on 3 August 2022.

Following the merger, MNACT will operate as a wholly-owned sub-trust of MCT and the merged entity will be managed by MCT's management team.

RATINGS RATIONALE

"The upgrade of MNACT's rating incorporates a one notch uplift to reflect our expectation of support from Mapletree Commercial Trust, following the merger, due to the strong linkages and integration between the two trusts," says Yu Sheng Tay, a Moody's Analyst.

The stable outlook reflects Moody's expectation that MNACT's credit metrics will improve gradually, led by earnings recovery at its key retail asset as pandemic restrictions are eased in Hong Kong. At the same time, the stable outlook also incorporates ongoing support from MCT.

Moody's believes there are strong financial linkages between the two trusts as MCT's notes contain cross-default provisions that will be triggered if a principal subsidiary such as MNACT defaults on its debt.

At the same time, MCT obtained a SGD350 million revolving credit facility on 21 July 2022 and added MNACT's subsidiaries as co-borrowers. The facility provides additional liquidity for MNACT to fund the early redemption of its notes. Noteholders exercised early redemption for around half of MNACT's SGD548 million notes as part of the merger process.

Moody's estimates MNACT's EBITDA will increase to SGD313 million in fiscal 2023, which ends 31 March 2023, from SGD305 million in fiscal 2022. The earnings improvement is driven by a further reduction in rental rebates at Festival Walk and improving consumer sentiment following the easing of pandemic restrictions in Hong Kong.

Consequently, MNACT's leverage, as measured by adjusted net debt/EBITDA, will improve to around 11x in fiscal 2023 and around 10x by fiscal 2024-25, from 11.4x in fiscal 2022. MNACT's interest coverage will stay strong at 4.3x-4.7x, while its debt/deposited asset will remain at around 43% over the same period.

MNACT has excellent liquidity. As of 30 June 2022, the trust had cash balance of around SGD178 million and undrawn committed credit facilities of around SGD500 million. These sources, together with the SGD350

million of revolving credit facility obtained in July, were sufficient to address its debt maturities and the early redemption of its notes through September 2023.

In terms of environmental, social and governance (ESG) risks, Moody's has considered governance risk stemming from MNACT's private company status and full ownership by MCT following the merger. MCT is publicly listed and regulated by the Monetary Authority of Singapore, which mitigate these risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given MNACT's high leverage, an upgrade is unlikely over the next 12-18 months. Moody's could upgrade the rating if MNACT reduces its leverage, as measured by net debt/EBITDA, to below 9.5x on a sustained basis.

Moody's could increase the uplift incorporated in the ratings if further evidence of support materializes, such as a guarantee by MCT on the preponderance of MNACT's debt. This may result in rating upgrade if MNACT's standalone profile does not deteriorate. Rating uplift could also increase if MCT's rating is upgraded and the linkages between MCT and MNACT remains strong or strengthens further.

Moody's could downgrade MNACT's rating if the trust's operating environment fails to recover, leading to higher vacancy levels and declining operating cash flow, causing its credit metrics to weaken, such that its net debt/EBITDA exceeds 10.0x-10.5x or its EBITDA interest coverage falls below 3.0x on a sustained basis.

In addition, the rating could also be downgraded if (1) Moody's assesses that support from MCT has weakened, resulting in the removal of the one-notch uplift; or (2) if MCT's rating is downgraded.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms Methodology published in July 2021 and available at <https://ratings.moody.com/api/rmc-documents/74168>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

As of 31 March 2022, Mapletree North Asia Commercial Trust (MNACT) had a portfolio of 13 properties in Hong Kong SAR, China; Japan and Korea, spread across the retail, office and business park segments, with a combined appraised value of SGD8.3 billion. MNACT will be delisted on 3 August 2022 and operate as a wholly-owned sub-trust of Mapletree Commercial Trust.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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