

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's confirms Mapletree Commercial Trust's Baa1 rating, outlook stable; continues review of Mapletree North Asia Commercial Trust's Baa3 rating for upgrade**

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26 May 2022

Singapore, May 26, 2022 -- Moody's Investors Service has confirmed Mapletree Commercial Trust's (MCT) Baa1 issuer rating.

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

Moody's has also confirmed the Baa1 ratings on the senior unsecured notes drawn down from the program under MCTTC.

MCTTC is a wholly-owned subsidiary of MCT and its notes and programs are guaranteed by MCT.

The outlook on all ratings of Mapletree Commercial Trust and Mapletree Commercial Trust Treasury Company Pte. Ltd. has been changed to stable from ratings under review.

This action concludes the review initiated on 5 January 2022, following the announcement of a proposed merger between MCT and MNACT.

Moody's continues to review for upgrade Mapletree North Asia Commercial Trust's (MNACT) Baa3 issuer rating.

At the same time, Moody's continues to review for upgrade the following provisional (P)Baa3 ratings: the senior unsecured euro medium-term note (EMTN) program of MNACT; 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 also continues to review for upgrade the Baa3 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.

The outlook on all ratings of Mapletree North Asia Commercial Trust, Mapletree North Asia Commercial Trust Treasury Company (S) Pte Ltd and Mapletree North Asia Commercial Treasury Company (HKSAR) Limited remains under review.

On 23 May 2022, unitholders of MCT and MNACT approved the merger of the two trusts. The merger is to be effected through MCT's acquisition of all the issued and paid-up units of MNACT. The transaction is subject to legal approvals and will likely complete in August 2022.

The estimated acquisition consideration is around SGD4.25 billion. MNACT unitholders may elect to receive new MCT units; a mix of new MCT units and cash; or cash only.

The sponsor of both trusts, Mapletree Investments Pte Ltd (MIPL), has provided an undertaking to receive MCT units for its 38% stake in MNACT. Should the remaining 62% unitholders of MNACT opt to receive cash only, it will result in SGD2.6 billion of cash required from MCT to complete the acquisition.

MCT intends to fund the cash requirements with SGD438 million in perpetual securities and/or debt, and up to SGD2.2 billion in equity offering. The sponsor has also provided an undertaking to subscribe for the entire equity offering to support the merger.

RATINGS RATIONALE

-- Mapletree Commercial Trust

"The confirmation of MCT's rating reflects our view that the trust's credit profile will remain appropriate for its Baa1 rating even if the merger goes ahead as approved by its unitholders. The trust's increased scale and diversification following its merger with MNACT will partly offset its higher leverage, which will improve over the next two years as operating performance across key retail assets recover," says Yu Sheng Tay, a Moody's Analyst.

The stable outlook reflects Moody's expectation that MCT's credit metrics will improve over the next 2-3 years following the merger. The outlook also incorporates the agency's view that MCT will maintain prudent financial policies while executing future growth plans.

MCT's scale, as measured by total assets, would double in size to more than SGD17 billion on a pro forma basis as of 31 March 2022, following the merger. The trust's portfolio will be more geographically diversified, and asset concentration risk will reduce. In fiscal 2022, which ended March 2022, MCT generated 100% of net property income (NPI) from Singapore, and two assets, VivoCity and Mapletree Business City, contributed 80% of NPI. Pro forma for the merger, MCT's exposure to Singapore will fall to 55% and contribution from the two assets will also decline to 44% of NPI.

Given the relatively higher leverage at MNACT and incurrence of debt and perpetual securities to fund the cash component of the merger, Moody's expects MCT's pro forma leverage, as measured by adjusted net debt/EBITDA, to increase to 9.4x-9.8x in fiscal 2023, from 8.5x in fiscal 2022. Nonetheless, the trust's leverage will improve to 8.9x-9.4x by fiscal 2024. The improvement will be supported by earnings recovery, particularly at key retail assets VivoCity and Festival Walk, where rental rebates to tenants will decline and rents will recover. MCT's interest coverage will stay strong at more than 4.0x in fiscal 2023 and fiscal 2024.

MCT has excellent liquidity. As of 31 March 2022, on a pro forma basis, the merged trust's cash and cash equivalents of SGD348 million and undrawn committed facilities of around SGD875 million were sufficient to cover upcoming debt maturities of around SGD1.2 billion over the next 15 months.

In terms of environmental, social and governance (ESG) risks, Moody's has considered governance risk arising from MCT's concentrated ownership and related-party transactions between MCT and its sponsor, MIPL, a wholly-owned subsidiary of Temasek Holdings (Private) Limited (Aaa stable). Nonetheless, this risk is mitigated by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through a board that consists of mostly 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. The sponsor has also provided an undertaking to help MCT fund the cash requirements for the merger.

-- Mapletree North Asia Commercial Trust

"The continued review for upgrade of MNACT's rating reflects the uncertainty around the extent of post-merger linkages between MCT and MNACT that could potentially result in a higher rating for MNACT based on our assessment of expected extraordinary support from MCT," adds Tay, who is also Moody's lead analyst for MNACT.

Moody's expects MNACT's business profile and credit metrics to remain largely unchanged following the merger. However, MNACT will no longer be separately listed and will operate as a sub-trust of MCT. MNACT's noteholders may opt for early redemption upon the delisting of MNACT. Nevertheless, Moody's expects MNACT has access to credit facilities to address the redemption if needed.

Moody's review will focus on (1) the linkages and level of integration between MCT and MNACT; (2) MNACT's post-merger capital structure and financial policy; and (3) MNACT's transparency around its operational and financial performance.

MNACT has excellent liquidity. As of 31 March 2022, the trust's cash balance of around SGD224 million and undrawn committed credit facilities of around SGD500 million were sufficient to cover its upcoming debt maturities of approximately SGD701 million over the next 15 months.

In terms of ESG risk, Moody's has considered the governance risk stemming from the related party transactions between MNACT and its sponsor, MIPL, a wholly-owned subsidiary of Temasek. This risk is mitigated by the regulatory oversight provided by the Monetary Authority of Singapore and exercised through a board that for the majority consists of independent directors. Furthermore, there is an alignment of interests between MNACT and its sponsor because the latter has maintained a stake of at least 30% in the trust since

its listing.

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

### -- Mapletree Commercial Trust

Moody's could upgrade MCT's rating if the trust balances its growth while improving its leverage, such that net debt/EBITDA remains below 8.0x on a sustained basis.

Moody's could downgrade the rating if MCT's operating environment deteriorates, leading to higher vacancy levels and declining operating cash flow; or if the trust's credit metrics do not recover to a level more appropriate for its rating. Specific credit metrics that Moody's would consider for a downgrade include (1) net debt/EBITDA remaining above 9.0x-9.5x; and (2) EBITDA/interest expense falling below 3.0x.

### -- Mapletree North Asia Commercial Trust

MNACT's ratings could be upgraded if Moody's assesses that MCT's willingness to provide extraordinary support result in an uplift for MNACT's rating.

On the other hand, MNACT's ratings could be confirmed at the current level (1) if the proposed merger does not go ahead; or (2) the proposed merger goes ahead but Moody's concludes that MCT's ability and willingness to provide extraordinary support do not result in an uplift for MNACT's rating.

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.moodys.com/api/rmc-documents/74168>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Mapletree Commercial Trust (MCT) was listed on the Singapore Stock Exchange in 2011. As of 31 March 2022, the trust had a portfolio of five properties in Singapore — across the retail, office and business park segments — with a combined appraised value of SGD8.8 billion. Its sponsor, MIPL, is a wholly-owned subsidiary of Temasek, which in turn is wholly owned by the Government of Singapore (Aaa stable). As of 20 May 2022, MIPL held a 32.7% stake in MCT.

Mapletree North Asia Commercial Trust (MNACT) was listed on the Singapore Stock Exchange in 2013. As of 31 March 2022, the trust had a portfolio of 13 properties in Hong Kong SAR, China; Japan and Korea — across the retail, office and business park segments — with a combined appraised value of SGD8.3 billion. The trust's sponsor, MIPL, is a wholly-owned subsidiary of Temasek, which in turn is wholly owned by the Government of Singapore (Aaa stable). As of 23 May 2022, MIPL held a 38.4% stake in MNACT.

## 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.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moody.com/documents/PBC\\_1288235](https://ratings.moody.com/documents/PBC_1288235).

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