

Rating Action: Moody's affirms Mapletree North Asia Commercial Trust's Baa3 rating; outlook remains negative

05 Feb 2021

Singapore, February 05, 2021 -- Moody's Investors Service has affirmed the Baa3 issuer rating of Mapletree North Asia Commercial Trust (MNACT).

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

The outlook for all ratings remains negative.

"The rating affirmation reflects our expectation of improvement in credit metrics supported by distribution reinvestment plan, revenue contribution of new acquisitions, low rent abatement and excellent liquidity," says Junling Tan, a Moody's Analyst.

The Baa3 rating also reflects the improved portfolio diversification and gradual reduction in income reliance on Festival Walk, which is the most severely affected asset in MNACT's portfolio.

"The negative outlook reflects the uncertainty surrounding the full impact of coronavirus-related disruption on the earnings and performance of MNACT's properties, and the trust's limited capacity to withstand an unexpected decline in earnings," adds Tan.

RATINGS RATIONALE

Moody's estimates MNACT's revenue for the fiscal year ending March 2021 will increase 10% from the previous year. The increase is driven by (1) higher earnings contributions from its Japanese and Korean acquisitions, (2) a low base established in fiscal 2020, as Festival Walk mall was closed for two months and did not collect rent, and (3) receipt of partial insurance claims for property damage and revenue loss during the mall's closure, which mitigates the earnings decline resulting from coronavirus-related disruptions.

Consequently, Moody's expects MNACT's adjusted net debt/EBITDA to improve to around 10.1x in fiscal 2021 from 12.5x in fiscal 2020, and adjusted EBITDA/interest expense to around 4.6x from 3.4x over the same period. Moody's expects adjusted net debt/EBITDA and EBITDA/interest expense to remain stable at around 10.2x and 4.5x, respectively, in fiscal 2022, supported by a gradual recovery in operating conditions.

MNACT's liquidity is excellent over the next 12 to 18 months. As of 31 December 2020, the trust's cash balances of approximately SGD224 million and undrawn committed credit facilities were sufficient to cover upcoming debt maturities of approximately SGD428 million over the next 12 to 18 months. Moody's also expects refinancing risk to be further mitigated by the trust's track record of funding access and established banking relationships.

In terms of environmental, social and governance (ESG) factors, Moody's has taken into consideration the governance risk stemming from related-party transactions between MNACT and its sponsor, Mapletree Investments Pte. Ltd. This risk is mitigated by regulatory oversight provided by the Monetary Authority of Singapore and exercised through the board, which mainly consists of independent directors. Furthermore, the interests of MNACT and its sponsor are aligned 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

Given the negative rating outlook, an upgrade is unlikely over the next 12-18 months. Nonetheless, the outlook could return to stable if the operating environment improves significantly over the next 12 months, enabling MNACT to maintain healthy credit metrics, such that its adjusted net debt/EBITDA is well below 10.0x-10.5x and adjusted EBITDA interest coverage is above 3.0x, on a sustained basis.

The ratings could be downgraded if the operating environment fails to recover, leading to higher vacancy levels and declining operating cash flow, causing the trust's credit metrics to weaken, such that adjusted net debt/EBITDA exceeds 10.0x-10.5x or adjusted EBITDA interest coverage falls below 3.0x. An increased reliance on secured funding would also be credit negative.

In addition, any significant change to MNACT's business profile due to a more accelerated expansion into emerging cities with higher operating risks, including second-tier cities in China, could also strain the trust's ratings.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1095505. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Mapletree North Asia Commercial Trust (MNACT) was listed on the Singapore stock exchange in 2013. Its portfolio, which consists of 12 properties in Hong Kong SAR, China, Japan and Korea, had a total appraised value of around SGD8.1 billion as of 31 December 2020. The trust's sponsor is Mapletree Investments Pte. Ltd., a wholly owned subsidiary of Temasek Holdings (Private) Limited (Aaa stable), which, in turn, is wholly owned by the Singapore government.

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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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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://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

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