

Prime US REIT

Strong leasing momentum



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SINGAPORE | REAL ESTATE | 3Q22 Update

9 Nov 2022

- 9M22 distributable income (+9.2% YoY) was in line, forming 73% of our FY22e estimate.
- Leasing activity in 3Q22 was close to the previous 2 quarters combined (246.2k vs 1H22 257.5k sq ft), with positive rental reversions of 10.1%. Occupancy remained stable at 89.6%.
- No change in our forecasts. Maintain BUY, DDM-TP (COE 10.55%) unchanged at US\$0.88. PRIME is our top pick in the US office sector for greater tenant exposure to STEM/TAMI sectors. Catalysts include improved leasing and a greater return to office. The current share price implies FY22e/FY23e DPU yield of 14.6/14.8%.

BUY (Maintained)

LAST CLOSE PRICE	USD 0.480
FORECAST DIV	USD 0.070
TARGET PRICE	USD 0.88
TOTAL RETURN	98.4%

COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,180
MARKET CAP (USD mn / SGD mn) :	566 / 566
52 - WK HI/LO (SGD) :	0.85 / 0.45
3M Average Daily T/O (mn) :	1.71

MAJOR SHAREHOLDERS (%)

KBS PROPERTIES REIT III	18.3%
KEPPEL CORP LTD	5.3%
STEPPE INVESTMENTS PTE. LTD.	5.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.8)	(32.0)	(38.9)
STI RETURN	0.1	(2.9)	4.4

Results at a glance

(US\$ mn)	3Q22	3Q21	YoY	Comments
Gross revenue	40.6	39.4	3.1%	Higher due to full quarter contributions from accretive acquisitions of Sorrento Towers and One Town Center.
Net property income	24.2	25.8	-6.1%	NPI impacted by lower occupancy on existing portfolio as compared to 3Q21
Distributable Income	19.2	20.0	-4.0%	

Source: Company, PSR

The Positives

+ Jump in leasing volumes. Prime signed 246.2k sq ft, or 5.7%, of portfolio CRI in 3Q22, which was close to the previous 2 quarters combined (1H2022: 257.5 sq ft). 52% of leases signed in 3Q22 were new leases, with leasing activity coming from the communications, legal services, real estate services, education and food services sectors. 3Q22 rental reversions came in at +10.1%, continuing the trend of positive rental reversions for the last 10 quarters.

+ 83% of debt is on fixed rate or hedged, with 66% of the total debt hedged or fixed through to mid-2026 and beyond. Prime has no refinancing obligations till July 2024. According to our calculations, every 100 basis points increase in interest rates would affect FY22e DPU by c.1.5%.

The Negative

- Occupancy remained flat QoQ at 89.6% for 3Q22 despite strong leasing momentum. Despite backfilling at Tower 1 at Emeryville (+18.2ppts); 101 South Hanley (+5.5ppts); and 171 17th Street (+3.1ppts), portfolio occupancy remained stable as it was dragged down by a significant non-renewal at Reston Square, bringing occupancy down from 100% to 47.1%. The tenant, Whitney, Bradley & Brown, used to occupy c.50% of space in the asset before its lease expired in July 2022.

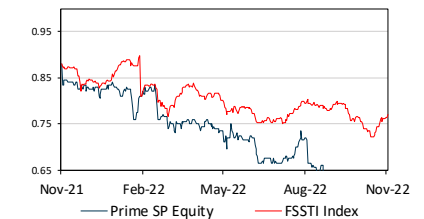
Outlook

Leasing activity spiked up in 3Q22 with renewed efforts by companies to encourage employees back into the office. According to JLL, office re-entry levels reached a post-pandemic high in the second half of September, and remote work is showing signs of losing momentum as the labour market tightens. With in-place rents c.6.7% below asking rents, Prime's portfolio is primed for more positive rental reversions.

Maintain BUY, DDM TP maintained at US\$0.88.

No change in our TP. The current share price implies FY22e/FY23e DPU yield of 14.6/14.8%. PRIME is our top pick in the US office sector for greater tenant exposure to STEM/TAMI sectors and the resilience of its portfolio. Catalysts include improved leasing and a greater return to the office. PRIME is also trading at an attractive 40% discount to book.

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$m)	FY20	FY21	FY22e	FY23e
Gross Revenue	143.6	156.7	171.6	176.4
NPI	95.0	100.7	110.2	113.3
Dist. Inc.	72.1	75.6	82.4	84.2
P/NAV (x)	0.56	0.56	0.57	0.57
DPU (US cents)	6.94	6.78	7.02	7.13
Dist. Yield (%)	14.46	14.13	14.62	14.86

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 10.55%; Terminal g: 2.0%)

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Financials

Income statement

Y/E Dec, (US\$'000)	FY19*	FY20	FY21	FY22e	FY23e
Gross revenue	60,656	143,557	156,741	171,625	176,386
Property expenses	(20,487)	(48,568)	(56,043)	(61,396)	(63,100)
Net property income	40,169	94,989	100,698	110,229	113,287
Net Finance (Expense)/Inc.	(7,038)	(14,868)	(16,982)	(21,161)	(21,298)
Manager's fees	(3,010)	(7,977)	(7,714)	(8,488)	(9,281)
Other items	(1,051)	(1,614)	(2,053)	(2,231)	(2,289)
FV change, derivatives & ppts	11,900	(45,291)	(1,052)	-	-
Net income before tax	40,970	25,239	72,897	78,349	80,419
Taxation	(7,268)	(2,030)	(4,709)	(5,093)	(5,227)
Net income after Tax	33,702	23,209	68,188	73,256	75,191
Distribution adjustments	(4,532)	48,869	7,413	9,141	8,972
Income available for distribution	29,170	72,078	75,601	82,397	84,163

Per unit data

Y/E Dec	FY19*	FY20	FY21	FY22e	FY23e
NAV (US\$)	0.89	0.86	0.85	0.84	0.84
DPU (US cents)	3.15	6.94	6.78	7.02	7.13

Cash Flow

Y/E Dec, (US\$'000)	FY19*	FY20	FY21	FY22e	FY23e
CFO					
Net income before tax	40,971	25,239	72,897	78,349	80,419
Adjustments	(5,290)	60,899	21,103	22,755	22,443
WC changes	8,743	3,754	1,724	1,349	(173)
Cash generated from ops	44,424	89,892	95,724	102,453	102,689
Others	-	406	345	4,970	5,102
Cashflow from ops	44,424	90,298	96,069	107,423	107,791

CFI

Acquisition of investment prope	(1,219,260)	(164,190)	(244,267)	-	-
Capex, net	(3,646)	(11,737)	(16,097)	(16,530)	(16,695)
Others	40	3	4	4	4
Cashflow from investments	(1,222,866)	(175,924)	(260,360)	(16,526)	(16,691)

CFF

Proceeds from issuance of units	813,000	120,000	80,000	-	-
Loans, net of repayments	426,988	32,829	132,044	15,366	(21,624)
Distributions	-	(65,004)	(69,439)	(82,397)	(84,163)
Others	(23,703)	(2,250)	(1,464)	(19)	(19)
Cashflow from financing	1,216,285	85,575	141,141	(67,050)	(105,806)
Net change in cash	37,843	(51)	(23,150)	23,848	(14,707)
Cash at the start of the period	1	37,862	37,442	13,873	37,724
FX changes	18	73	(38)	-	-
Ending cash	37,862	37,884	14,254	37,721	23,017

*19 July-31 Dec 2019

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (US\$'000)	FY19*	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	1,254,700	1,405,200	1,653,000	1,669,530	1,686,225
Others	-	-	1,580	6,972	13,561
Total non-current assets	1,254,700	1,405,200	1,654,580	1,676,502	1,699,786
Trade receivables	2,411	1,623	1,825	1,989	1,931
Cash	37,862	37,442	13,873	37,724	23,020
Others	2,200	2,584	2,654	3,086	2,813
Total current assets	42,473	41,649	18,352	42,798	27,764
Total Assets	1,297,173	1,446,849	1,672,932	1,719,301	1,727,551
LIABILITIES					
Loans and borrowings	-	-	-	243,000	315,000
Trade payables	16,646	14,540	15,903	17,431	16,828
Rent received in advance	5,061	6,493	9,329	9,329	9,329
Others	752	860	1,253	1,514	1,529
Total current liabilities	22,459	21,893	26,485	271,274	342,685
Loans and borrowings	432,824	480,352	628,973	422,489	350,151
Others	16,582	36,812	26,390	31,578	36,827
Total non-current liabilities	449,406	517,164	655,363	454,067	386,978
Total Liabilities	471,865	539,057	681,848	725,340	729,663
Net assets	825,308	907,792	991,084	993,960	997,887
Represented by:					
Unitholders' funds	825,308	907,792	991,084	993,960	997,887

Valuation Ratios

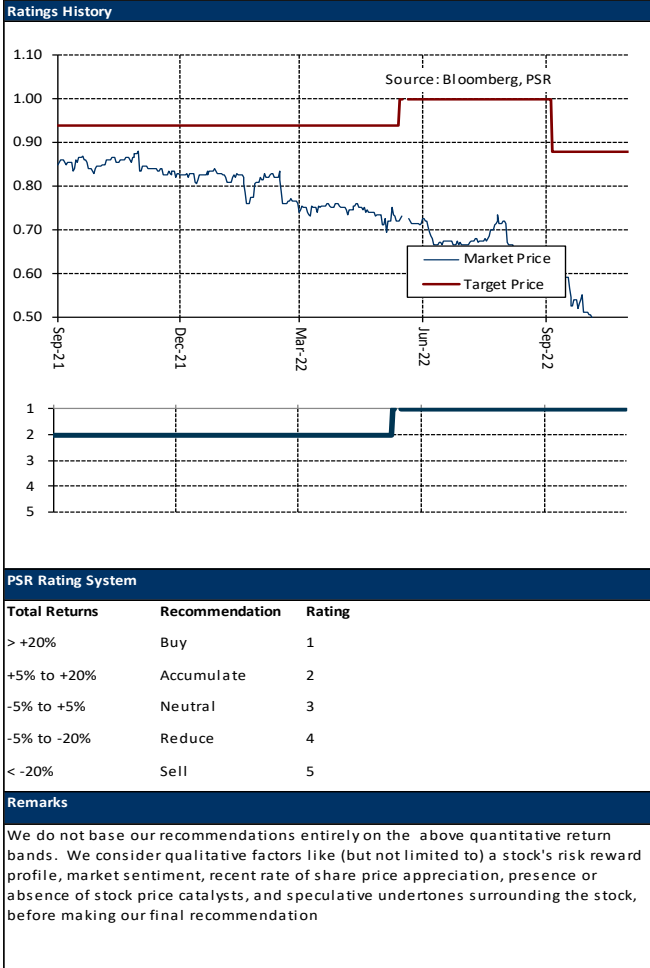
Y/E Dec	FY19*	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.54	0.56	0.56	0.57	0.57
Distribution Yield (%)	6.6	14.5	14.1	14.6	14.9
NPI yield (%)	3.2	7.1	6.6	6.6	6.8

Growth & Margins

Growth					
Revenue	nm	136.7%	9.2%	9.5%	2.8%
Net property income (NPI)	nm	136.5%	6.0%	9.5%	2.8%
Distributable income	-	nm	4.9%	9.0%	2.1%
DPU	-	nm	-2.3%	3.5%	1.6%
Margins					
NPI margin	66.2%	66.2%	64.2%	64.2%	64.2%

Key Ratios

Net Debt or (Net Cash)	394,962	442,910	615,100	384,765	327,131
Gearing	34.5%	34.2%	38.1%	25.3%	20.8%



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