

# Prime US REIT

Resilient portfolio



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SINGAPORE | REAL ESTATE | UPDATE

14 Sep 2022

- Resilient portfolio with eight consecutive quarters of positive rental reversions. Leases signed in 2Q22 enjoyed positive rental reversions of +10.9%.
- Minimally impacted by rising interest rates, with 86% of debt either on fixed rate or hedged through interest rate swaps. Around 51% of debts have hedges in place through to 2026.
- Maintain BUY, DDM-TP (COE 10.55%) lowered from US\$1 to US\$0.88 as we trim our FY22e-FY24e DPU by 1-2%. Our COE nudged up from 9.6% to 10.55% on higher risk-free rate assumption and market risk. 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 11.4/11.6%.

## BUY (Upgraded)

LAST CLOSE PRICE	USD 0.615
FORECAST DIV	USD 0.070
TARGET PRICE	USD 0.88
TOTAL RETURN	54.8%

## COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,178
MARKET CAP (USD mn / SGD mn) :	725 / 725
52 - WK HI/LO (SGD) :	0.89 / 0.61
3M Average Daily T/O (mn) :	1.40

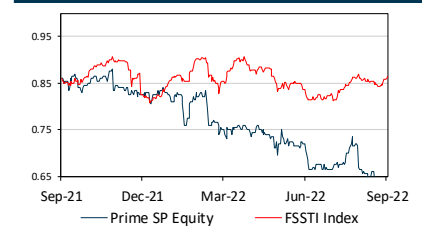
## MAJOR SHAREHOLDERS (%)

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

## PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.3)	(10.8)	(19.8)
STI RETURN	0.6	4.4	8.6

## 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)	0.72	0.72	0.73	0.73	
DPU (US cents)	6.94	6.78	7.02	7.13	
Dist. Yield (%)	11.28	11.02	11.41	11.60	

Source: Company, PSR

## VALUATION METHOD

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

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## Investment thesis

- 8 consecutive quarters of positive rental reversions.** PRIME signed 85.7k sq ft, or 1.8%, of portfolio CRI in 2Q22, with an overall rental reversion of +10.9%; 47% of which were new leases. 2Q22 leasing activities were mainly from financial, professional services and healthcare sectors. Management guided that leasing demand and enquiries for its assets remain strong and active leasing discussions are ongoing for Tower 1 at Emeryville, Village Center Station 1, Tower 909, 222 Main and 171 17<sup>th</sup> Street.
- Resilient portfolio.** PRIME has a diversified portfolio, with no single primary market contributing more than 11.7% of CRI and no single property contributing more than 13.8% of CRI. Portfolio occupancy remained stable in 2Q22 at 89.6%. PRIME also has a healthy WALE of 4 years, with well staggered lease expirations. Their tenant industry sector diversification also contributes to their resiliency, with 74% of tenants in established and growth (STEM/TEMI) sectors.
- Minimally impacted by rising interest rates,** as c.86% of debt is either on fixed rate or hedged through interest rate swaps. About 51% of debts have hedges in place through to 2026, while c.18% of debts are hedged for the next 2 years. About 17% of debt is on fixed rate and matures in 2029. No debt expiring until 2024, assuming the exercise of extension options. PRIME has aggregate leverage of 37.8%. According to our calculations, every 100 basis points increase in interest rates would affect FY22e DPU by c.1.1%.

## Outlook

As of June 2022, office-using employment increased by about 1.6 million (+4.8% YoY), and there were 1.06 million (+3.2%) more office-using workers than before the pandemic began. The US job market remain healthy and this has spurred many companies to add office space to house a larger workforce.

Leasing activity picked up in 1H22 with stronger demand coming from the financial, professional services and healthcare sectors. Physical occupancy across the portfolio is at c.50% as more tenants implement their return-to-work plans. With in-place rents c.5.3% below asking rents, PRIME's portfolio is primed for more positive rental reversions.

## Maintain BUY, and DDM TP lowered from US\$1.00 to US\$0.88.

DDM-TP lowered from US\$1 to US\$0.88 as we trim our FY22e-FY24e DPU by 1-2%. Our COE nudged up from 9.6% to 10.55% on higher risk-free rate assumption and market risk. The current share price implies FY22e/FY23e DPU yield of 11.4/11.6%. PRIME is our top pick in the US office sector for greater tenant exposure to STEM/TAMI sectors and the resiliency of its portfolio. Catalysts include improved leasing and a greater return to the office. PRIME is also trading at an attractive 25% discount to book.

**Financials**
**Income statement**

Y/E Dec, (US\$'000)	FY19*	FY20	FY21	FY22e	FY23e
<b>Gross revenue</b>	<b>60,656</b>	<b>143,557</b>	<b>156,741</b>	<b>171,625</b>	<b>176,386</b>
Property expenses	(20,487)	(48,568)	(56,043)	(61,396)	(63,100)
<b>Net property income</b>	<b>40,169</b>	<b>94,989</b>	<b>100,698</b>	<b>110,229</b>	<b>113,287</b>
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)	-	-
<b>Net income before tax</b>	<b>40,970</b>	<b>25,239</b>	<b>72,897</b>	<b>78,349</b>	<b>80,419</b>
Taxation	(7,268)	(2,030)	(4,709)	(5,093)	(5,227)
<b>Net income after Tax</b>	<b>33,702</b>	<b>23,209</b>	<b>68,188</b>	<b>73,256</b>	<b>75,191</b>
Distribution adjustments	(4,532)	48,869	7,413	9,141	8,972
<b>Income available for distribution</b>	<b>29,170</b>	<b>72,078</b>	<b>75,601</b>	<b>82,397</b>	<b>84,163</b>

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

**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
<b>Cashflow from investments</b>	<b>(1,222,866)</b>	<b>(175,924)</b>	<b>(260,360)</b>	<b>(16,526)</b>	<b>(16,691)</b>

**CFF**

Proceeds from issuance of units	<b>813,000</b>	<b>120,000</b>	<b>80,000</b>	-	-
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)
<b>Cashflow from financing</b>	<b>1,216,285</b>	<b>85,575</b>	<b>141,141</b>	<b>(67,050)</b>	<b>(105,806)</b>
<b>Net change in cash</b>	<b>37,843</b>	<b>(51)</b>	<b>(23,150)</b>	<b>23,848</b>	<b>(14,707)</b>
Cash at the start of the period	1	37,862	37,442	13,873	37,724
FX changes	18	73	(38)	-	-
<b>Ending cash</b>	<b>37,862</b>	<b>37,884</b>	<b>14,254</b>	<b>37,721</b>	<b>23,017</b>

\*19 July-31 Dec 2019

Source: Company, Phillip Securities Research (Singapore) Estimates

**Balance Sheet**

Y/E Dec, (US\$'000)	FY19*	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Investment properties	1,254,700	1,405,200	1,653,000	1,669,530	1,686,225
Others	-	-	1,580	6,972	13,561
<b>Total non-current assets</b>	<b>1,254,700</b>	<b>1,405,200</b>	<b>1,654,580</b>	<b>1,676,502</b>	<b>1,699,786</b>
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
<b>Total current assets</b>	<b>42,473</b>	<b>41,649</b>	<b>18,352</b>	<b>42,798</b>	<b>27,764</b>
<b>Total Assets</b>	<b>1,297,173</b>	<b>1,446,849</b>	<b>1,672,932</b>	<b>1,719,301</b>	<b>1,727,551</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>22,459</b>	<b>21,893</b>	<b>26,485</b>	<b>271,274</b>	<b>342,685</b>
Loans and borrowings	432,824	480,352	628,973	422,489	350,151
Others	16,582	36,812	26,390	31,578	36,827
<b>Total non-current liabilities</b>	<b>449,406</b>	<b>517,164</b>	<b>655,363</b>	<b>454,067</b>	<b>386,978</b>
<b>Total Liabilities</b>	<b>471,865</b>	<b>539,057</b>	<b>681,848</b>	<b>725,340</b>	<b>729,663</b>
<b>Net assets</b>	<b>825,308</b>	<b>907,792</b>	<b>991,084</b>	<b>993,960</b>	<b>997,887</b>
<b>Represented by:</b>					
Unitholders' funds	825,308	907,792	991,084	993,960	997,887

**Valuation Ratios**

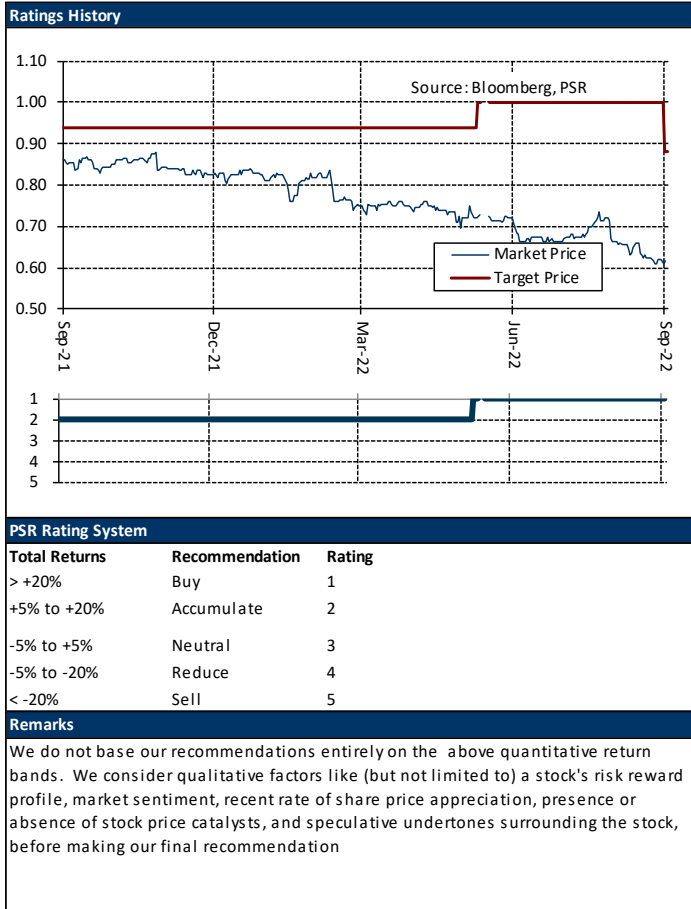
Y/E Dec	FY19*	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.69	0.72	0.72	0.73	0.73
Distribution Yield (%)	5.1	11.3	11.0	11.4	11.6
NPI yield (%)	3.2	7.1	6.6	6.6	6.8

**Growth & Margins**

<b>Growth</b>					
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%
<b>Margins</b>					
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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