

Prime US REIT

No breach, but refinancing risks persist



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SINGAPORE | REAL ESTATE | FY23 RESULTS

- FY23 DPU of 2.71 US cts (-58.6% YoY) was below our estimates due to Prime paying only 0.25 US cts in 2H23 (c.10% of 2H23 distribution) to preserve capital for capex needs. Assuming a 100% payout ratio, FY23 DPU of 4.86 US cts would have aligned with our FY23e forecast at 99%. Prime also announced a 1-for-10 bonus issue (c.43% of 2H23 DI), translating to a value of 1.03 US cts, based on a unit price of US\$0.103.
- The YoY decline in FY23 distributable income (-25%) was due to Prime increasing management fees paid in cash from 20% to 100%, higher interest expense, and lower portfolio occupancy. Excluding the change in management fees paid in cash, distributable income is down 18.9% YoY. Portfolio valuations fell 8.7%, taking gearing to 48.4%, just under the MAS limit of 50%.
- Maintain BUY, DDM-TP lowered from US\$0.37 to US\$0.30 as we roll over our forecasts. FY24e DPU estimate lowered by 77% after factoring in the enlarged share base from the bonus issue, a lower portfolio occupancy, and a payout ratio of 25%. The key risk entails refinancing US\$478mn (68% of total) debt under its main credit facility expiring in July 24, though management has expressed confidence in their ability to do so. Prime is now focusing on deleveraging and has set a target to execute US\$100mn of deleveraging in 2024. Assuming a 25% payout ratio in FY24e, the current share price implies an FY24e DPU yield of 8%. Prime is currently trading at 0.22x P/NAV.

Results at a glance

(US\$ mn)	2H23	2H22	YoY	FY23	FY22	YoY	Comments
Gross revenue	80.3	81.2	-1.1%	159.8	163.0	-2.0%	Lower due to occupancy decline.
Net property income	46.4	47.1	-1.5%	93.6	97.9	-4.5%	Higher property operating expenses, largely due to increase in office physical occupancy.
Distributable Income	28.6	35.8	-20.2%	57.8	77.2	-25.0%	Lower due to a 30% YoY increase in finance expenses. In FY23, 100% of manager's base fee was settled in cash vs 20% in FY22.
DPU (US cts)	0.25	3.03	-91.7%	2.71	6.55	-58.6%	Announced a cash distribution of US 0.25 cents, equivalent to c.10% of 2H23 DI per unit, and a 1 for 10 bonus issue in 2H23 to preserve a portion of DI for capex needs.
Portfolio Occupancy	85.4%	89.1%	-3.7%	85.4%	89.1%	3.7%	

Source: Company, PSR

The Positive

+ Leasing activities picked up in 4Q23. Prime signed 304.1k sq ft of leases in 4Q23, more than the previous three quarters combined (9M23: 276.8k sq ft), at 9.6% positive rental reversion. Portfolio occupancy improved 0.4% QoQ to 85.4%, but it will dip in 2024 due to Sodexo (5.4% of income) vacating c.166k sq ft of space (c.3.8% of portfolio occupancy) at One Washingtonian Center (OWC). Management indicated strong leasing momentum at some of its properties, with notable leasing discussions underway at OWC and Park Tower, albeit with relatively longer lead times.

The Negatives

- Portfolio valuation fell US\$134.3mn or 8.7% YoY, due to an average 54bps expansion in cap rates across the portfolio. The decline in valuation was lower than we anticipated. As a result, there was no breach in financial covenants as gearing increased to 48.4%, just under MAS limit of 50% if ICR is above 2.5x; Prime's ICR is 3.1x. Prime is now working on deleveraging alternatives and is targeting up to US\$100mn of deleveraging in 2024 to pare down gearing.

- Yet to refinance US\$600mn in credit facilities (US\$478 outstanding) due July 24. Management indicated they are actively discussing refinancing this loan with lenders, which constitutes 68% of Prime's total debt. The cost of debt for the quarter was flat QoQ at 4%, with 79% of debt either on fixed rate or hedged, with 62% of debt hedged or fixed through to 2026 or beyond.

26 February 2024

BUY (Maintained)

LAST CLOSE PRICE	USD 0.132
FORECAST DIV	USD 0.011
TARGET PRICE	USD 0.30
TOTAL RETURN	135.3%

COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,189
MARKET CAP (USD mn / SGD mn) :	157 / 157
52 - WK HI/LO (SGD) :	0.41 / 0.09
3M Average Daily T/O (mn) :	6.59

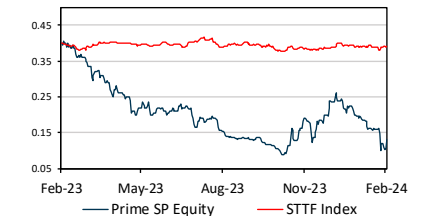
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(45.4)	(43.7)	(55.4)
STTF RETURN	2.2	3.9	(0.5)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	163.0	159.8	161.9	170.4
NPI	97.9	93.6	94.8	99.8
Dist. Inc.	77.2	57.8	55.0	58.9
P/NAV (x)	0.18	0.22	0.23	0.23
DPU (US cents)	6.55	2.71	1.10	4.50
Dist. Yield (%)	49.62	20.53	8.34	34.09

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 15.95%; Terminal g: 1.75%)

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Outlook

Prime has not committed to future distributions going forward and will evaluate the situation dynamically, depending on capital requirements. Management continues to prioritize net effective rents with lower capex deals over headline rents in a challenging US office environment. In-place rents are c.6.5% below asking rents, and the potential for favourable rental reversions going forward remains promising. Prime US Reit has no exposure to WeWork, which filed for Chapter 11 bankruptcy.

Maintain BUY, DDM TP lowered from US\$0.37 to US\$0.30. FY24e DPU estimate lowered by 77% after factoring in the enlarged share base from the bonus issue, a lower portfolio occupancy, and a payout ratio of 25%. Assuming a 25% payout ratio, the current share price implies an FY24e DPU yield of 8%.

Financials
Income statement

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	156,741	163,012	159,803	161,906	170,394
Property expenses	(56,043)	(65,078)	(66,244)	(67,116)	(70,634)
Net property income	100,698	97,934	93,559	94,790	99,760
Net Finance (Expense)/Inc.	(16,982)	(21,599)	(28,013)	(29,471)	(29,933)
Manager's fees	(7,714)	(7,872)	(6,425)	(7,299)	(8,021)
Other items	(2,053)	(2,820)	(2,173)	(2,202)	(2,311)
FV change, derivatives & ppties	(1,052)	(106,450)	(172,740)	-	-
Net income before tax	72,897	(40,807)	(115,792)	55,818	59,495
Taxation	(4,709)	13,890	(45)	(4,465)	(4,760)
Net income after Tax	68,188	(26,917)	(115,837)	51,353	54,736
Distribution adjustments	7,413	104,067	173,662	3,619	4,133
Income available for distribution	75,601	77,150	57,825	54,972	58,868

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (US\$)	0.85	0.75	0.60	0.58	0.58
DPU (US cents)	6.78	6.55	2.71	1.10	4.50

Cash Flow

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	72,897	(40,807)	(115,792)	55,818	59,495
Adjustments	21,105	132,808	200,461	26,961	27,639
WC changes	1,724	(2,783)	997	(2,699)	4,227
Cash generated from ops	95,726	89,218	85,666	80,080	91,361
Others	345	534	(123)	4,358	4,645
Cashflow from ops	96,071	89,752	85,543	84,438	96,006

CFI

Acquisition of investment properti	(244,267)	(631)	-	-	-
Capex, net	(16,097)	(29,489)	(24,429)	(24,429)	(24,853)
Others	4	15	91	86	91
Cashflow from investments	(260,360)	(30,105)	(24,338)	(24,343)	(24,762)

CFF

Proceeds from issuance of units	80,000	-	-	-	-
Loans, net of repayments	132,044	15,530	3,195	(28,029)	(18,491)
Distributions	(69,441)	(76,852)	(64,301)	(9,844)	(58,868)
Others	(1,464)	(19)	(19)	(19)	(19)
Cashflow from financing	141,139	(61,341)	(61,125)	(37,892)	(77,378)
Net change in cash	(23,150)	(1,694)	80	22,204	(6,134)
Cash at the start of the period	37,442	13,873	11,581	11,756	33,963
FX changes	(38)	(28)	8	-	-
Ending cash	14,254	12,151	11,669	33,960	27,828

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

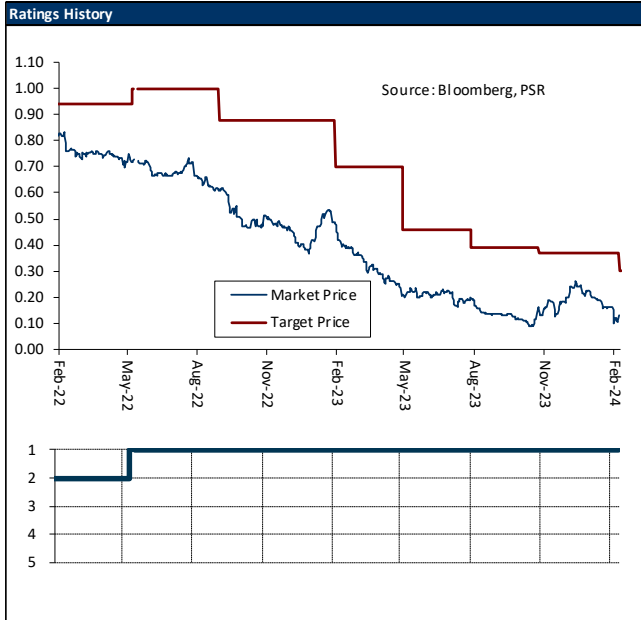
Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	1,653,000	1,542,200	1,407,950	1,432,379	1,457,232
Others	1,580	29,954	15,712	18,222	20,856
Total non-current assets	1,654,580	1,572,154	1,423,662	1,450,601	1,478,088
Trade receivables	2,997	3,859	4,262	4,049	4,698
Cash	13,873	11,581	11,756	36,670	30,538
Others	1,482	1,462	1,723	1,504	1,892
Total current assets	18,352	16,902	17,741	42,223	37,128
Total Assets	1,672,932	1,589,056	1,441,403	1,492,824	1,515,216
LIABILITIES					
Loans and borrowings	-	-	478,403	-	115,000
Trade payables	15,903	18,126	20,904	18,640	22,977
Rent received in advance	9,329	6,777	7,356	7,356	7,356
Others	1,253	843	1,411	1,428	2,189
Total current liabilities	26,485	25,746	508,074	27,423	147,522
Loans and borrowings	628,973	665,572	218,018	697,934	594,450
Others	26,390	3,945	4,363	7,892	12,759
Total non-current liabilities	655,363	669,517	222,381	705,826	607,209
Total Liabilities	681,848	695,263	730,455	733,249	754,732
Net assets	991,084	893,793	710,948	759,575	760,484
Represented by:					
Unitholders' funds	991,084	893,793	710,948	759,575	760,484

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.16	0.18	0.22	0.23	0.23
Distribution Yield (%)	51.4	49.6	20.5	8.3	34.1
NPI yield (%)	6.6	6.1	6.3	6.7	6.9

Growth & Margins

Growth					
Revenue	9.2%	4.0%	-2.0%	1.3%	5.2%
Net property income (NPI)	6.0%	-2.7%	-4.5%	1.3%	5.2%
Distributable income	4.9%	2.0%	-25.0%	-4.9%	7.1%
DPU	-2.3%	-3.4%	-58.6%	-59.4%	308.9%
Margins					
NPI margin	64.2%	60.1%	58.5%	58.5%	58.5%
Key Ratios					
Net Debt or (Net Cash)	615,100	653,991	684,665	661,264	678,912
Gearing	37.6%	41.9%	48.3%	46.8%	46.8%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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