

# Prime US REIT

Pricing in some refinancing risk



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SINGAPORE | REAL ESTATE | 1Q24 Update

13 May 2024

- 1Q24 results were within expectations. Gross revenue/distributable income was 23%/22% of our FY24e forecast. DI was 19.5% lower YoY due to lower portfolio occupancy (1Q24: 80.9%) and higher finance expenses.
- Management is confident that it will refinance the US\$480mn (69% of total) debt before its July 2024 maturity as: 1) Prime is in the final stages of securing the loan, 2) the lenders are a syndicate led by Bank of America. US banks are relatively more comfortable with financing US commercial real estate on a 65% LTV and an ICR of 1.5x, and 3) Prime's assets are still generating income and cash-flows. However, credit spreads and interest cost may widen.
- Downgrade from BUY to ACCUMULATE with a lower TP of US\$0.12 from US\$0.30. We peg our TP to 0.2x P/NAV (from DDM), in line with its peers. We are pricing in the refinancing risk by changing our valuation from DDM to P/NAV that is in-line with US office peers. We believe this is warranted due to the short two-month window to refinance the debt. Prime is now focusing on deleveraging and has set a target to execute US\$100mn of deleveraging in 2024. A successful refinancing of the US\$480mn loan maturing in July 2024 we believe will help narrow the discount to NAV to 0.3x P/NAV and a target price of US\$0.18. Based on our assumption of a 25% payout ratio in FY24e, the current share price implies an FY24e DPU yield of 9.5%. Prime is currently trading at 0.19x P/NAV.

## ACCUMULATE (Downgraded)

LAST CLOSE PRICE	USD 0.110
FORECAST DIV	USD 0.010
TARGET PRICE	USD 0.12
TOTAL RETURN	18.6%

## COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,308
MARKET CAP (USD mn / SGD mn) :	144 / 144
52 - WK HI/LO (SGD) :	0.24 / 0.08
3M Average Daily T/O (mn) :	6.97

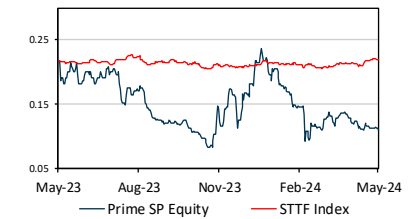
## MAJOR SHAREHOLDERS (%)

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

## PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.1)	(20.8)	(47.2)
STTF RETURN	3.0	5.8	2.9

## PRICE VS. STTF



Source: Bloomberg, PSR

## Results at a glance

(US\$ mn)	1Q24	1Q23	YoY	Comments
Gross revenue	37.1	40.2	-7.6%	Lower due to occupancy decline.
Net property income	20.8	23.6	-11.7%	
Distributable Income	12.0	14.9	-19.5%	Lower due to higher finance expenses.

Source: Company, PSR

## The Positive

**+ Leasing volume more than doubled YoY.** Over 171.3k sq ft of leases were signed in 1Q24 (1Q23: 64.4k sq ft; 4Q23: 304.1k sq ft). Rental reversion for 1Q24 was -1.8% due to a 31.8k sq ft 11-year lease renewal in Reston Square with rents below preceding rents but above market rents. Management indicated strong leasing momentum at some of its properties, with notable leasing discussions underway at One Washingtonian Center (OWC), Park Tower, and 101 Hanley, albeit with relatively longer lead times.

## The Negatives

**- Two months left to refinance US\$480mn or 69% of total debt due July 2024.** Management is actively discussing refinancing this loan with lenders and believes it will be completed before maturity. 79% of total debt are either on fixed rate or hedged, with US\$330mn of the US\$480mn debt due for refinancing in July 2024 already hedged till June 2026. The cost of debt rose 0.1%pts QoQ to 4.1%. Aggregate leverage stood at 48.1%, with an ICR of 2.9x.

**- 1Q24 Portfolio occupancy fell to 80.9% (FY23: 85.4%)** after Sodexo vacated OWC. OWC is now undergoing an asset enhancement initiative to rejuvenate the asset, which is expected to be completed in 2H24. Excluding OWC, occupancy was 84.7%.

## Outlook

Key priorities for Prime are: 1) refinancing the loan before its July 2024 maturity, 2) improving portfolio occupancy, and 3) executing deleveraging strategies to keep debt ratios within required thresholds. Prime has not committed to future distributions going forward and will evaluate the situation dynamically, depending on capital requirements. Prime's physical occupancy is at 60%.

## KEY FINANCIALS

Y/E Dec (US\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	163.0	159.8	156.6	170.4
NPI	97.9	93.6	91.7	99.8
Dist. Inc.	77.2	57.8	52.2	58.9
P/NAV (x)	0.15	0.18	0.19	0.19
DPU (US cents)	6.55	2.71	1.04	4.50
Dist. Yield (%)	59.55	24.64	9.50	40.91

Source: Company, PSR

## VALUATION METHOD

0.2x P/NAV

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**Downgrade from BUY to ACCUMULATE with a lower TP of US\$0.12 from US\$0.30.** We change our valuation method from DDM to 0.2x P/NAV (in line with its peers). Assuming a 25% payout ratio, the current share price implies an FY24e DPU yield of 9.5%.

**Financials**
**Income statement**

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
<b>Gross revenue</b>	<b>156,741</b>	<b>163,012</b>	<b>159,803</b>	<b>156,598</b>	<b>170,394</b>
Property expenses	(56,043)	(65,078)	(66,244)	(64,915)	(70,634)
<b>Net property income</b>	<b>100,698</b>	<b>97,934</b>	<b>93,559</b>	<b>91,683</b>	<b>99,760</b>
Net Finance (Expense)/Inc.	(16,982)	(21,599)	(28,013)	(29,472)	(29,933)
Manager's fees	(7,714)	(7,872)	(6,425)	(7,060)	(8,755)
Other items	(2,053)	(2,820)	(2,173)	(2,137)	(2,311)
FV change, derivatives & pptides	(1,052)	(106,450)	(172,740)	-	-
<b>Net income before tax</b>	<b>72,897</b>	<b>(40,807)</b>	<b>(115,792)</b>	<b>53,014</b>	<b>58,761</b>
Taxation	(4,709)	13,890	(45)	(4,241)	(4,701)
<b>Net income after Tax</b>	<b>68,188</b>	<b>(26,917)</b>	<b>(115,837)</b>	<b>48,773</b>	<b>54,060</b>
Distribution adjustments	7,413	104,067	173,662	3,422	4,809
<b>Income available for distribution</b>	<b>75,601</b>	<b>77,150</b>	<b>57,825</b>	<b>52,195</b>	<b>58,869</b>

**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	1.04	4.50

**Cash Flow**

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
<b>CFO</b>					
<b>Net income before tax</b>	<b>72,897</b>	<b>(40,807)</b>	<b>(115,792)</b>	<b>53,014</b>	<b>58,761</b>
Adjustments	21,105	132,808	200,461	26,986	28,373
WC changes	1,724	(2,783)	997	(3,706)	6,198
<b>Cash generated from ops</b>	<b>95,726</b>	<b>89,218</b>	<b>85,666</b>	<b>76,295</b>	<b>93,332</b>
Others	345	534	(123)	4,139	4,588
<b>Cashflow from ops</b>	<b>96,071</b>	<b>89,752</b>	<b>85,543</b>	<b>80,434</b>	<b>97,920</b>

**CFI**

Acquisitions	(244,267)	(631)	-	-	-
Capex, net	(16,097)	(29,489)	(24,429)	(24,429)	(24,853)
Others	4	15	91	86	91
<b>Cashflow from investments</b>	<b>(260,360)</b>	<b>(30,105)</b>	<b>(24,338)</b>	<b>(24,343)</b>	<b>(24,762)</b>

**CFF**

Proceeds from issuance of units	<b>80,000</b>	-	-	-	-
Loans, net of repayments	132,044	15,530	3,195	(28,029)	(18,491)
Distributions	(69,441)	(76,852)	(64,301)	(9,497)	(58,869)
Others	(1,464)	(19)	(19)	(19)	(19)
<b>Cashflow from financing</b>	<b>141,139</b>	<b>(61,341)</b>	<b>(61,125)</b>	<b>(37,545)</b>	<b>(77,379)</b>
<b>Net change in cash</b>	<b>(23,150)</b>	<b>(1,694)</b>	<b>80</b>	<b>18,546</b>	<b>(4,222)</b>
Cash at the start of the period	37,442	13,873	11,581	11,756	30,305
FX changes	(38)	(28)	8	-	-
<b>Ending cash</b>	<b>14,254</b>	<b>12,151</b>	<b>11,669</b>	<b>30,302</b>	<b>26,083</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

**Balance Sheet**

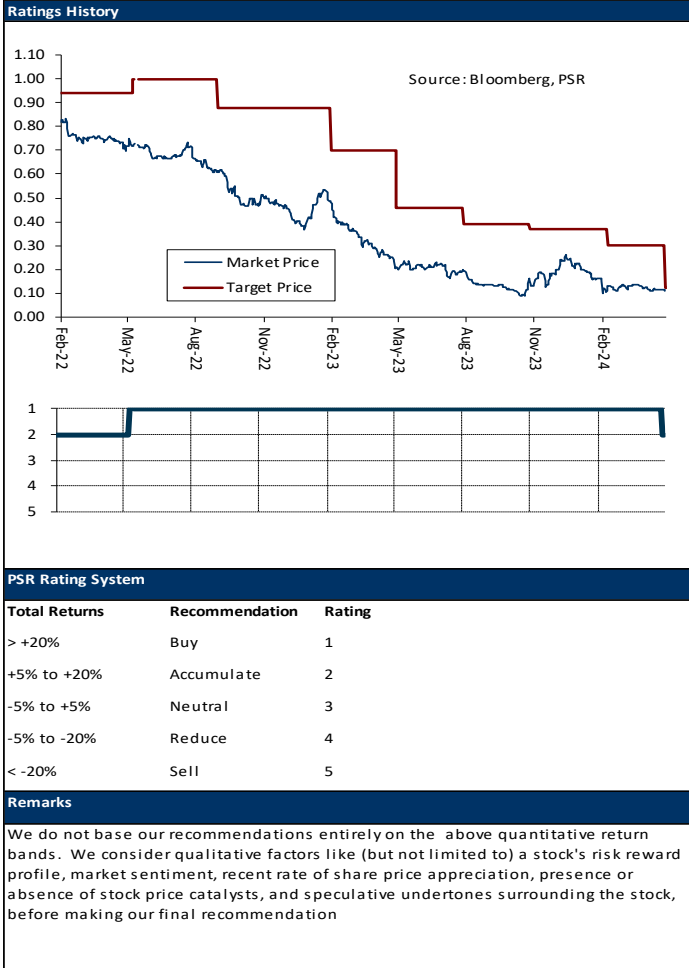
Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Investment properties	1,653,000	1,542,200	1,407,950	1,432,379	1,457,232
Others	1,580	29,954	15,712	18,198	20,831
<b>Total non-current assets</b>	<b>1,654,580</b>	<b>1,572,154</b>	<b>1,423,662</b>	<b>1,450,577</b>	<b>1,478,063</b>
Trade receivables	2,997	3,859	4,262	3,777	4,970
Cash	13,873	11,581	11,756	33,012	28,793
Others	1,482	1,462	1,723	1,398	1,998
<b>Total current assets</b>	<b>18,352</b>	<b>16,902</b>	<b>17,741</b>	<b>38,186</b>	<b>35,761</b>
<b>Total Assets</b>	<b>1,672,932</b>	<b>1,589,056</b>	<b>1,441,403</b>	<b>1,488,763</b>	<b>1,513,824</b>
<b>LIABILITIES</b>					
Loans and borrowings	-	-	478,403	-	115,000
Trade payables	15,903	18,126	20,904	17,343	24,274
Rent received in advance	9,329	6,777	7,356	7,356	7,356
Others	1,253	843	1,411	1,372	2,235
<b>Total current liabilities</b>	<b>26,485</b>	<b>25,746</b>	<b>508,074</b>	<b>26,071</b>	<b>148,864</b>
Loans and borrowings	628,973	665,572	218,018	697,934	594,450
Others	26,390	3,945	4,363	7,637	12,480
<b>Total non-current liabilities</b>	<b>655,363</b>	<b>669,517</b>	<b>222,381</b>	<b>705,571</b>	<b>606,930</b>
<b>Total Liabilities</b>	<b>681,848</b>	<b>695,263</b>	<b>730,455</b>	<b>731,642</b>	<b>755,794</b>
<b>Net assets</b>	<b>991,084</b>	<b>893,793</b>	<b>710,948</b>	<b>757,121</b>	<b>758,030</b>
<b>Represented by:</b>					
Unitholders' funds	991,084	893,793	710,948	757,121	758,030

**Valuation Ratios**

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.13	0.15	0.18	0.19	0.19
Distribution Yield (%)	61.6	59.5	24.6	9.5	40.9
NPI yield (%)	6.6	6.1	6.3	6.5	6.9

**Growth & Margins**

<b>Growth</b>					
Revenue	9.2%	4.0%	-2.0%	-2.0%	8.8%
Net property income (NPI)	6.0%	-2.7%	-4.5%	-2.0%	8.8%
Distributable income	4.9%	2.0%	-25.0%	-9.7%	12.8%
DPU	-2.3%	-3.4%	-58.6%	-61.4%	330.6%
<b>Margins</b>					
NPI margin	64.2%	60.1%	58.5%	58.5%	58.5%
<b>Key Ratios</b>					
Net Debt (US\$'000)	615,100	653,991	684,665	664,922	680,657
Gearing	37.6%	41.9%	48.3%	46.9%	46.9%



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