

Prime US REIT

Refinancing finally complete



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SINGAPORE | REAL ESTATE | 1H24 Results

- 1H24 results were within expectations. Gross revenue/distributable income was 47%/45% of our FY24e forecast. DPU of 0.18 US cents missed our estimates as Prime paid out only c.10% of DI in 1H24, compared to our initial assumption of 25%.
- Completed the major refinancing exercise on 9 August 2024 with a US\$550mn credit facility. This new facility has an initial maturity in July 2026, with an option to extend for an additional year. The facility will be used to repay S\$504.3mn of loans, with the balance for working capital and capital expenditure.
- We upgrade from ACCUMULATE to BUY with a higher TP of US\$0.22 from US\$0.12. We revert our valuation methodology back to DDM (cost of equity: 15.95%, g: 1.75%) from 0.2x P/NAV after the successful securing of a new secured-loan facility. We lower our FY24e DPU forecast by 68% after accounting for the divestment of One Town Center and a lower payout ratio of 10% (previously assumed 25% payout ratio). Based on our assumption of a 10% payout ratio in FY24e, the current share price implies an FY24e DPU yield of 1.8%, which is still considered favourable compared to its peers, which are not paying any dividends. We think there is potential for capital appreciation as Prime is currently trading at a steep discount at 0.32x P/NAV.

Results at a glance

(US\$ mn)	1H24	1H23	YoY	Comments
Gross revenue	73.5	79.5	-7.5%	Lower due to occupancy decline and AEI at One Washingtonian Center.
Net property income	40.6	47.2	-14.0%	Property expenses rose 1.9% YoY due to higher non-cash amortisation of lease commissions.
Distributable Income	23.3	29.2	-20.2%	1H24 finance expenses rose 8.4% YoY.
DPU (US cts)	0.18	2.24	-92.0%	1H24 cash distribution of US 0.18 cents, equivalent to c.10% of DI. The amount retained will be used to fund Capex and pare down borrowings.
Portfolio Occupancy	83.9%	85.6%	-1.7%	1H24 occupancy excludes OWC which is undergoing AEI.

Source: Company, PSR

The Positive

+ Completed major refinancing exercise. Prime entered a new credit facility with an aggregate principal amount of up to US\$550mn, consisting of a US\$400mn term loan and a US\$150mn committed revolving credit facility. The initial maturity of this facility is July 26, with a one-year extension option. We expect FY24e all-in cost of debt to remain below 5% (2Q24: 4.2%) as US\$330mn of this new facility has already been hedged until mid-2026 through interest rate swaps.

+ Completed the strategic sale of One Town Center (OTC) located in Boca Raton, Florida. As part of Prime's deleveraging strategy, OTC was divested for US\$82mn. Despite challenging market conditions and the lack of bank funding for US real estate, it was sold at only a 3% discount to its valuation. The proceeds will be used to pare down existing debt, lower gearing, and fund essential Capex to drive leasing activity.

The Negative

- Leasing volume improved in 2Q24, but still slow. 97.3k sq ft of leases were signed in 2Q24 (2Q23: 66.8k sq ft; 1H24: 268.6k sq ft) with a -1.3% rental reversion. Excluding One Washingtonian Center (OWC), which is undergoing a US\$7mn AEI that is slated to be completed in 4Q24, portfolio occupancy fell from 84.7% to 83.9% QoQ. We expect this AEI to yield positive results, with OWC occupancy rising to over 90% by FY25e, accompanied by higher rents.

16 August 2024

BUY (Upgraded)

LAST CLOSE PRICE	USD 0.181
FORECAST DIV	USD 0.003
TARGET PRICE	USD 0.22
TOTAL RETURN	22.0%

COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,308
MARKET CAP (USD mn / SGD mn) :	237 / 237
52 - WK HI/LO (SGD) :	0.24 / 0.08
3M Average Daily T/O (mn) :	6.29

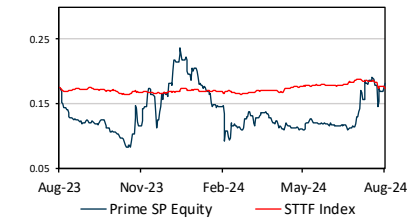
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	35.7	57.7	(18.2)
STTF RETURN	(6.0)	0.1	3.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	163.0	159.8	147.1	153.4
NPI	97.9	93.6	81.1	88.7
Dist. Inc.	77.2	57.8	40.9	42.7
P/NAV (x)	0.24	0.30	0.32	0.32
DPU (US cents)	6.55	2.71	0.33	3.27
Dist. Yield (%)	36.19	14.97	1.81	18.05

Source: Company, PSR

VALUATION METHOD

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

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Outlook

With the major refinancing exercise now complete, Prime will fully focus on leasing and improving portfolio occupancy. Although the office sector's recovery varies by market, there is encouraging leasing demand, though larger leases may have longer lead times.

Prime has not committed to future distributions and will evaluate the situation dynamically, depending on capital requirements. Prime's physical occupancy has improved to over 60%. The aggregate leverage of c.46% after the divestment of OTC is within MAS's limit of 50% as Prime's ICR is at 2.8 times.

Upgrade from ACCUMULATE to BUY with a higher TP of US\$0.22 from US\$0.12. We revert our valuation method to DDM from 0.2x P/NAV. Assuming a 10% payout ratio, the current share price implies an FY24e DPU yield of 1.8%.

Financials

Income statement

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	156,741	163,012	159,803	147,110	153,439
Property expenses	(56,043)	(65,078)	(66,244)	(66,020)	(64,718)
Net property income	100,698	97,934	93,559	81,090	88,721
Net Finance (Expense)/Inc.	(16,982)	(21,599)	(28,013)	(31,590)	(36,460)
Manager's fees	(7,714)	(7,872)	(6,425)	(6,244)	(6,842)
Other items	(2,053)	(2,820)	(2,173)	(1,903)	(2,068)
FV change, derivatives & pptides	(1,052)	(106,450)	(172,740)	-	-
Net income before tax	72,897	(40,807)	(115,792)	41,353	43,352
Taxation	(4,709)	13,890	(45)	(3,308)	(3,468)
Net income after Tax	68,188	(26,917)	(115,837)	38,044	39,883
Distribution adjustments	7,413	104,067	173,662	2,890	2,865
Income available for distribution	75,601	77,150	57,825	40,935	42,748

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (US\$)	0.85	0.75	0.60	0.57	0.57
DPU (US cents)	6.78	6.55	2.71	0.33	3.27

Cash Flow

Y/E Dec, (US\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	72,897	(40,807)	(115,792)	41,353	43,352
Adjustments	21,105	132,808	200,461	29,505	34,336
WC changes	1,724	(2,783)	997	(3,882)	3,479
Cash generated from ops	95,726	89,218	85,666	66,976	81,167
Others	345	534	(123)	3,229	3,385
Cashflow from ops	96,071	89,752	85,543	70,204	84,552

CFI

Acquisitions	(244,267)	(631)	-	78,000	-
Capex, net	(16,097)	(29,489)	(24,429)	(28,159)	(27,162)
Others	4	15	91	80	82
Cashflow from investments	(260,360)	(30,105)	(24,338)	49,921	(27,080)

CFF

Proceeds from issuance of units	80,000	-	-	-	-
Loans, net of repayments	132,044	15,530	3,195	(100,141)	(25,161)
Distributions	(69,441)	(76,852)	(64,301)	(5,020)	(42,748)
Others	(1,464)	(19)	(19)	(19)	(19)
Cashflow from financing	141,139	(61,341)	(61,125)	(105,180)	(67,929)
Net change in cash	(23,150)	(1,694)	80	14,946	(10,457)
Cash at the start of the period	37,442	13,873	11,581	11,756	26,705
FX changes	(38)	(28)	8	-	-
Ending cash	14,254	12,151	11,669	26,702	16,247

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	1,358,109	1,385,271
Others	1,580	29,954	15,712	17,797	19,931
Total non-current assets	1,654,580	1,572,154	1,423,662	1,375,906	1,405,203
Trade receivables	2,997	3,859	4,262	3,289	4,587
Cash	13,873	11,581	11,756	29,412	18,957
Others	1,482	1,462	1,723	1,492	1,614
Total current assets	18,352	16,902	17,741	34,193	25,159
Total Assets	1,672,932	1,589,056	1,441,403	1,410,099	1,430,361
LIABILITIES					
Loans and borrowings	-	-	478,403	-	115,000
Trade payables	15,903	18,126	20,904	17,047	21,217
Rent received in advance	9,329	6,777	7,356	7,356	7,356
Others	1,253	843	1,411	1,324	1,979
Total current liabilities	26,485	25,746	508,074	25,727	145,553
Loans and borrowings	628,973	665,572	218,018	627,934	524,298
Others	26,390	3,945	4,363	6,490	9,990
Total non-current liabilities	655,363	669,517	222,381	634,424	534,288
Total Liabilities	681,848	695,263	730,455	660,151	679,841

Net assets

Represented by:					
Unitholders' funds	991,084	893,793	710,948	749,948	750,521

Valuation Ratios

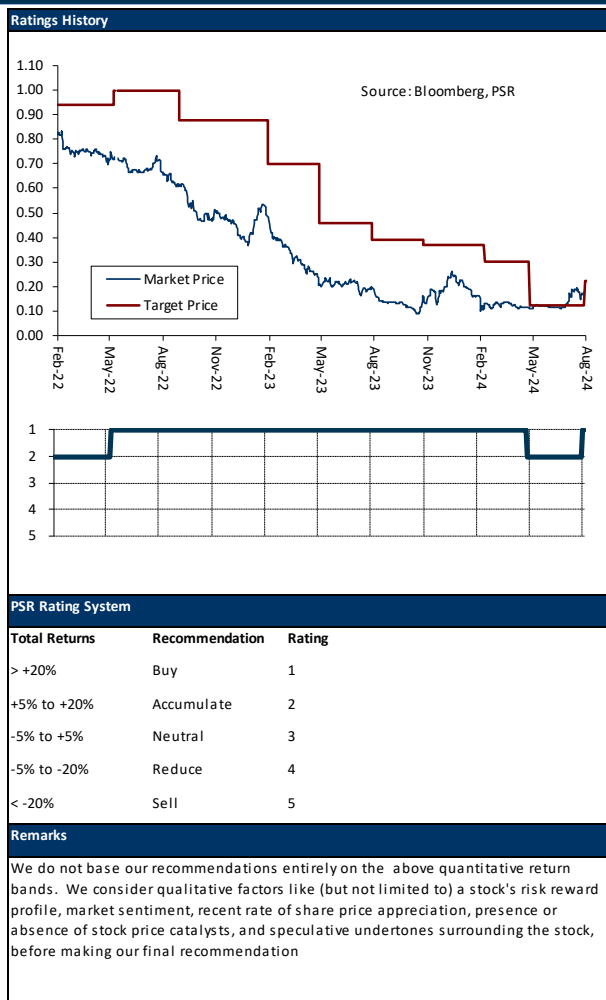
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.21	0.24	0.30	0.32	0.32
Distribution Yield (%)	37.5	36.2	15.0	1.8	18.1
NPI yield (%)	6.6	6.1	6.3	5.9	6.5

Growth & Margins

Growth					
Revenue	9.2%	4.0%	-2.0%	-7.9%	4.3%
Net property income (NPI)	6.0%	-2.7%	-4.5%	-13.3%	9.4%
Distributable income	4.9%	2.0%	-25.0%	-29.2%	4.4%
DPU	-2.3%	-3.4%	-58.6%	-87.9%	896.8%
Margins					
NPI margin	64.2%	60.1%	58.5%	55.1%	57.8%

Key Ratios

Net Debt (US\$'000)	615,100	653,991	684,665	598,522	620,341
Gearing	37.6%	41.9%	48.3%	44.5%	44.7%



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