

Prime US REIT

Unexpected rise in portfolio valuations



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SINGAPORE | REAL ESTATE | FY24 RESULTS

25 February 2025

- 2H24/FY24 DPU of 0.11/0.29UScts (-52%/-88% YoY) were below expectations at 33%/88% of our FY24e forecast. The YoY decline was due to: 1) the manager retaining c.90% of DI for capital expenditure, 2) the divestment of One Town Center in July 24, 3) Waterfront at Washingtonian's asset enhancement initiative (AEI), and 4) higher finance expenses. 2H24/FY24 DI was 36%/93% of our FY24e forecast.
- Portfolio valuations rose 2.2% YoY to US\$1.352bn, driven by stronger operating performance and positive leasing momentum, despite a slight increase in cap and discount rates. FY24 leasing volume grew 1.9% YoY, with leases signed at a 1.8% positive rental reversion.
- We maintain BUY with an unchanged TP of US\$0.20. We lower our FY25e/26e DPU estimates by 21%/20% to reflect a lower NPI margin, aligning with FY24 levels as we roll forward our forecasts. Assuming the 10% payout ratio continues through FY25e and Prime resumes full distributions in FY26e, the current share price implies an FY25e/26e DPU yield of 1.7%/19.5%. We expect a return to 100% distribution in FY26e, supported by higher portfolio occupancy, lower capex and tenant incentive requirements, and cash contributions from leases signed in FY24/FY25 as rent-free periods and incentives phase out. With more employers mandating return-to-office five days a week, Prime is well-positioned to benefit from this trend and the improving leasing momentum. Prime is currently trading at a steep discount at 0.26x P/NAV.

Results at a glance

(US\$ mn)	2H24	2H23	YoY	FY24	FY23	YoY	Comments
Gross revenue	67.5	80.3	-16.0%	141.0	159.8	-11.8%	Divestment of One Town Center in July 24 and lower contribution from Waterfront at Washingtonian which was undergoing AEI.
Net property income	35.4	46.4	-23.7%	76.0	93.6	-18.8%	
Distributable Income	14.8	28.6	-48.1%	38.2	57.8	-34.0%	FY24 finance expenses was US\$36mn (FY23: US\$28.1mn)
DPU (US cts)	0.11	0.23	-52.2%	0.29	2.46	-88.2%	Cash distribution was c.10% of DI in FY24 (1H23: 100%; 2H23: c.10%). The amount retained will be used to fund Capex and tenant incentives.

Source: Company, PSR

The Positive

+ Positive leasing momentum. Prime signed 592k sq ft of leases in FY24, marking a 1.9% YoY increase, with a 1.8% positive rent reversion. Notable lease signings are expected at Park Tower, Waterfront at Washingtonian, and Village Center Station I in the coming months, which should help increase portfolio occupancy from the current 80%. These three assets have occupancy rates ranging from 48.7% to 65.5%.

+ Portfolio valuations were a pleasant surprise. Valuations increased by US\$28.9mn, or 2.2% YoY, to US\$1.352bn, despite a 25bps rise in cap and discount rates. This growth was driven by better operating performance, improved cash flow visibility, and favourable take-up rates. However, after accounting for capital expenditure incurred in FY24, a fair value loss of US\$8mn was recognised.

The Negative

-Higher finance costs expected in FY25e. We expect the all-in cost of debt to rise to 5.5% (FY24: 5.1%) following the completion of the new US\$550mn credit facility in FY24. Gearing improved to 46.7% (3Q24: 47.8%) but remains high. 67% of debt is hedged to a fixed rate, and the interest coverage ratio is 2x.

BUY (Maintained)

LAST CLOSE PRICE	USD 0.150
FORECAST DIV	USD 0.003
TARGET PRICE	USD 0.20
TOTAL RETURN	34.1%

COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,308
MARKET CAP (USD mn) :	222
52 - WK HI/LO (USD) :	0.21 / 0.08
3M Average Daily T/O (mn) :	3.51

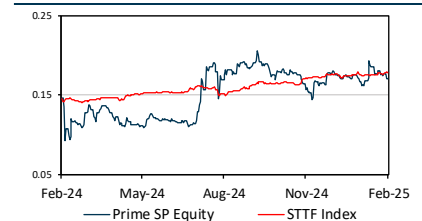
MAJOR SHAREHOLDERS (%)

KBS PROPERTIES REIT III	16.5%
AT INVESTMENTS LTD	5.0%
KEPPEL LTD	4.8%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	3.0	4.3	0.0
STTF RETURN	2.1	4.7	2.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US\$m)	FY23	FY24	FY25e	FY26e
Gross Revenue	159.8	141.0	144.6	156.4
NPI	93.6	76.0	77.9	84.3
Dist. Inc.	57.8	38.2	34.2	38.2
P/NAV (x)	0.25	0.27	0.26	0.26
DPU (US cents)	2.71	0.29	0.26	2.92
Dist. Yield (%)	18.07	1.93	1.74	19.47

Source: Company, PSR

VALUATION METHOD

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

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Outlook

The flight to quality trend persists, with Prime utilising retained distributions for Capex and tenant incentives to attract and secure new tenants across its portfolio. We expect FY25e Capex to be US\$35mn, similar to FY24's. The focus remains on improving portfolio occupancy and leasing, which the return-to-office trend should support. Prime's physical occupancy is nearly 70%, indicating that employees are already returning to the office for an average of 3.5 days per week.

Maintain BUY with an unchanged TP of US\$0.20. Assuming a 10% payout ratio, the current share price implies an FY25e DPU yield of 1.7%.

Financials

Income statement

Y/E Dec, (US\$'000)	FY22	FY23	FY24	FY25e	FY26e
Gross revenue	163,012	159,803	140,963	144,563	156,424
Property expenses	(65,078)	(66,244)	(64,988)	(66,647)	(72,116)
Net property income	97,934	93,559	75,975	77,915	84,308
Net Finance (Expense)/Inc.	(21,599)	(28,013)	(35,365)	(36,384)	(38,079)
Manager's fees	(7,872)	(6,425)	(4,242)	(5,999)	(7,481)
Other items	(2,820)	(2,173)	(2,417)	(2,479)	(2,672)
FV change, derivatives & pptides	(106,450)	(172,740)	(23,154)	-	-
Net income before tax	(40,807)	(115,792)	10,797	33,053	36,077
Taxation	13,890	(45)	(121)	(490)	(534)
Net income after Tax	(26,917)	(115,837)	8,049	32,563	35,543
Distribution adjustments	104,067	173,662	30,126	1,646	2,675
Income available for distribution	77,150	57,825	38,175	34,209	38,217

Per unit data

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
NAV (US\$)	0.75	0.60	0.55	0.57	0.57
DPU (US cents)	6.55	2.71	0.29	0.26	2.92

Cash Flow

Y/E Dec, (US\$'000)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Net income before tax	(40,807)	(115,792)	8,170	33,053	36,077
Adjustments	132,808	200,461	62,376	35,974	38,625
WC changes	(2,783)	997	1,778	(2,581)	2,186
Cash generated from ops	89,218	85,666	72,324	66,446	76,888
Others	(39)	(39)	(133)	478	521
Cashflow from ops	89,179	85,627	72,191	66,924	77,409

CFI

Disposals	-	-	75,373	-	-
Acquisitions	(631)	-	-	-	-
Capex, net	(29,489)	(24,429)	(38,197)	(38,197)	(33,366)
Others	15	91	670	693	750
Cashflow from investments	(30,105)	(24,338)	37,846	(37,504)	(32,617)

CFF

Proceeds from issuance of units	-	-	-	-	-
Loans, net of repayments	15,530	3,195	(88,962)	(25,676)	(7,403)
Distributions	(76,852)	(64,301)	(5,328)	(3,421)	(38,217)
Others	(16)	(16)	(16)	(16)	(16)
Cashflow from financing	(61,338)	(61,122)	(94,306)	(29,113)	(45,636)
Net change in cash	(2,264)	167	15,731	307	(844)
Cash at the start of the period	13,873	11,581	11,756	27,485	27,792
FX changes	(28)	8	(2)	-	-
Ending cash	11,581	11,756	27,485	27,792	26,948

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

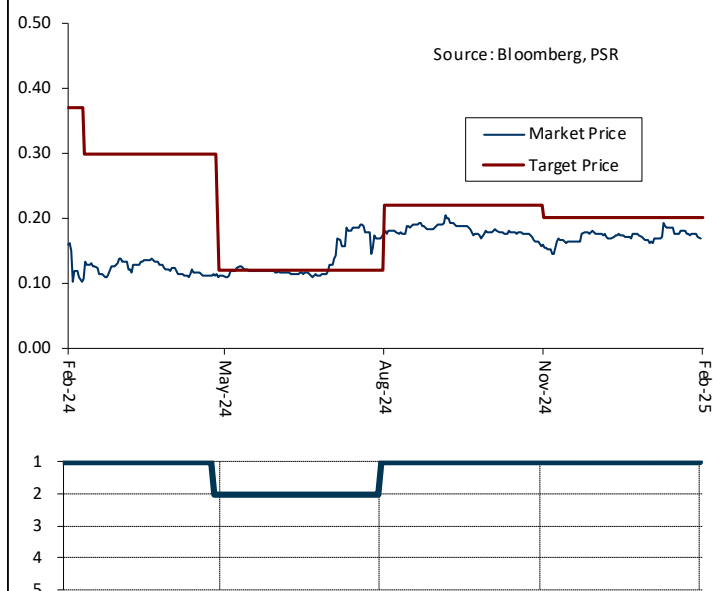
Y/E Dec, (US\$'000)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Investment properties	1,542,200	1,407,950	1,352,070	1,390,267	1,423,633
Others	29,954	15,712	3,038	3,448	3,891
Total non-current assets	1,572,154	1,423,662	1,355,108	1,393,715	1,427,524
Trade receivables	3,859	4,262	3,281	3,907	4,227
Cash	11,581	11,756	27,485	27,792	26,948
Others	1,462	1,723	1,527	1,806	1,800
Total current assets	16,902	17,741	32,293	33,504	32,976
Total Assets	1,589,056	1,441,403	1,387,401	1,427,219	1,460,500
LIABILITIES					
Loans and borrowings	-	478,403	-	70,000	-
Trade payables	18,126	20,904	26,311	24,210	26,197
Rent received in advance	6,777	7,356	8,764	8,764	8,764
Others	843	1,411	1,020	2,112	2,285
Total current liabilities	25,746	508,074	36,095	105,086	37,246
Loans and borrowings	665,572	218,018	637,266	578,650	680,060
Others	3,945	4,363	4,955	4,771	5,641
Total non-current liabilities	669,517	222,381	642,221	583,422	685,700
Total Liabilities	695,263	730,455	678,316	688,508	722,946
Net assets	893,793	710,948	709,085	738,711	737,553
Represented by:					
Unitholders' funds	893,793	710,948	709,085	738,711	737,553

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	0.20	0.25	0.27	0.26	0.26
Distribution Yield (%)	43.7	18.1	1.9	1.7	19.5
NPI yield (%)	6.1	6.3	5.5	5.7	6.0

Growth & Margins

Growth					
Revenue	4.0%	-2.0%	-11.8%	2.6%	8.2%
Net property income (NPI)	-2.7%	-4.5%	-18.8%	2.6%	8.2%
Distributable income	2.0%	-25.0%	-34.0%	-10.4%	11.7%
DPU	-3.4%	-58.6%	-89.3%	-9.8%	1017.2%
Margins					
NPI margin	60.1%	58.5%	53.9%	53.9%	53.9%
Key Ratios					
Net Debt (US\$'000)	653,991	684,665	609,781	620,859	653,112
Gearing	41.9%	48.3%	45.9%	45.4%	46.6%

Ratings History

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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