

Parkway Life REIT

A hedge against high inflation

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Industry: Real Estate Operations

Phillip Securities Research Pte Ltd

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Report type: Full Year Results

Company Overview

PLife REIT is one of the largest listed healthcare REITs in Asia by asset size. Its mandate is to invest in income-producing real estate and/or healthcare-related assets primarily used for healthcare and/or healthcare-related purposes in Singapore and Asia.

- 4Q11 (FY11) revenue \$22.8mn (\$87.8mn), NPI \$20.8mn (\$80.3mn), distributable income \$14.9m (\$58.1mn)
- DPU for 4Q11 (FY11) at 2.47 cents (9.60 cents)
- Incorporate 95% payout ratio from 2012 to 2016
- Upgrade to ACCUMULATE though with a lowered target price of \$1.880

What is the news?

PLife REIT delivered another spectacular report card for FY11, with DPU grew 9.2% from 8.79 cents to 9.60 cents. The key performance indicators – gross revenue, net property income, and distributable income for FY11, together rose in the range of 9.1%-9.6% to \$87.8mn, \$80.3mn and \$58.1mn respectively compared to the preceding year.

Fig.1. Results Summary

Income Statement (Extract)						
	4QFY11	4QFY10	y-y (%)	FY11	FY10	y-y (%)
(S\$'mn)						
Revenue	22.8	21.5	6.3%	87.8	80.0	9.6%
NPI	20.8	19.7	5.9%	80.3	73.6	9.1%
Distributable Income	14.9	14.4	3.2%	58.1	53.1	9.2%
DPU (cents)	2.47	2.38	3.2%	9.60	8.79	9.2%

Source: Trust, PSR

How do we view this?

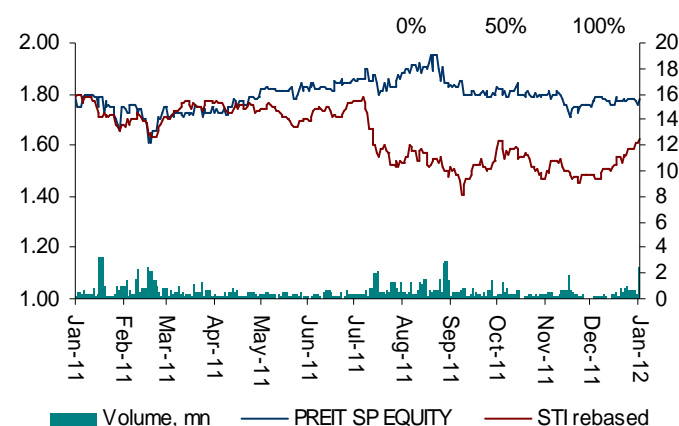
DPU was largely in-line with our expectations, amounting to 99.5% of our full year estimates. The increase in DPU was mainly due to: (1) yield-accretive acquisitions made in 2010/11, (2) upward rental revision of Singapore properties and (3) lower financing costs.

Investment Actions?

High inflationary environment has prompted us to raise our CPI rental review assumption for FY12 from 2.5% to 6% with respect to Singapore properties. While the retention distributable income to take effect in FY12 will net off the gains in the rental growth. FY12 DPU is expected to dip first before heading north in the following years. We rollover our estimates to FY16 and arrive a lower target price of \$1.88. Nevertheless, it would be good to accumulate PLife REIT against the backdrop of global uncertainties and high inflationary environment given its resilient and sustainable model.

Parkway Life REIT

Rating	2	Accumulate
- Previous Rating	3	Neutral
Target Price (SGD)	1.880	
- Previous Target Price (SGD)	1.910	
Closing Price (SGD)	1.785	
Expected Capital Gains (%)	5.3%	
Expected Dividend Yield (%)	5.3%	
Expected Total Return (%)	10.6%	
Raw Beta (Past 2yrs weekly data)	0.37	
Market Cap. (USD mn)	861	
Enterprise Value (USD mn)	1,217	
3M Average Daily T/O (mn)	0.4	
52 w week range (SGD)	1.56 - 1.975	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. Parkway Holdings Ltd	35.8
2. Bank of New York Mellon Corp	10.3
3. Symphony Intl Holdings Ltd	5.9

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (SGD mn)	80.0	87.8	91.2	93.8
Net Profit (SGD mn)	53.1	61.4	63.3	65.6
EPS (SGD)	0.108	0.169	0.097	0.100
P/E basic (X)	16.6	10.6	18.5	17.8
BVPS (SGD)	1.410	1.480	1.480	1.479
P/B (X)	1.3	1.2	1.2	1.2
DPS (SGD)	0.088	0.096	0.094	0.098
Div. Yield (%)	4.9%	5.4%	5.3%	5.5%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DDM (Discount rate: 7.0%; terminal g: 1.5%)

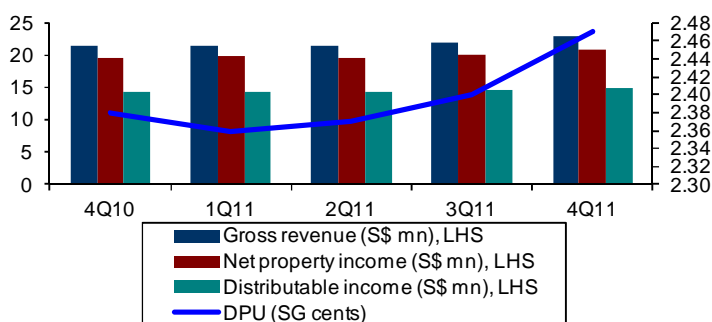
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DPU remained resilient and soared throughout FY11

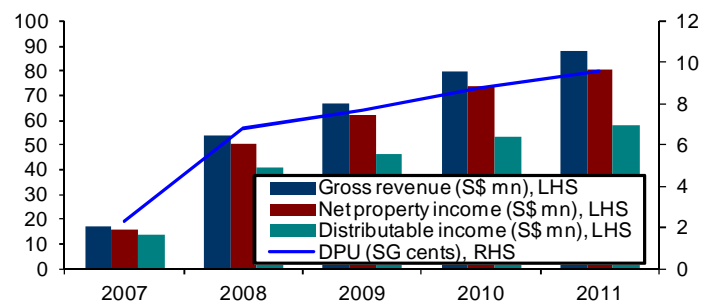
DPU had trended higher throughout the quarters in FY11, with the exception in 1Q11. The blip was due to the removal of management fee paid in units which has artificially inflated the DPU prior to 1Q11. With the full contribution from the acquisition of Fukufuku-kan in Jan 2011, DPU in 2Q11 improved to 2.37 cents. The higher rent from the Singapore hospital properties due to rental growth rate of 5.3% for the fifth year lease term commencing 23 August 2011, further boosted the DPU to 2.40 cents in 3Q11 and 2.47 cents in 4Q11. For the whole of FY11, DPU grew 9.2%, much lower than the 13.6% growth in FY10 as more properties were acquired in 2009/10.

Fig.2. Quarter Gross Revenue, NPI, Distributable income and DPU



Source: Trust, PSR

Fig.3. Annual Gross Revenue, NPI, Distributable income and DPU



Source: Trust, PSR

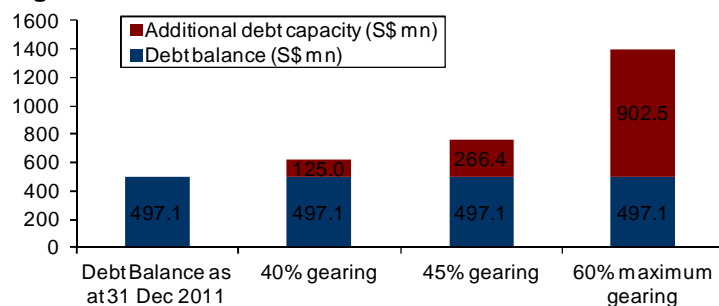
Retention of distributable income

The management has announced that a portion of the distributable income will be retained to finance recurring capital expenditure needs of its existing properties through operating cashflow with effect from FY12. It was understood that approximately \$3mn will be retained for FY12. In this connection, we have assumed a payout ratio of 95.0% from 2012 to 2016. This action will reduce the REIT's reliance on debt to fund its capital expenditure while DPU will decrease accordingly.

Healthy gearing of 34.8% as at 31 Dec 2011

Aggregate leverage was down from 36.6% in 3Q11 to 34.8% in 4Q11 as a result of revaluation gain of \$46.5mn for total portfolio value. This leaves PLife REIT with ample debt headroom of \$125.0mn and \$266.4mn based on 40% and 45% gearing respectively.

Fig.4. Debt Headroom as at 31 Dec 2011

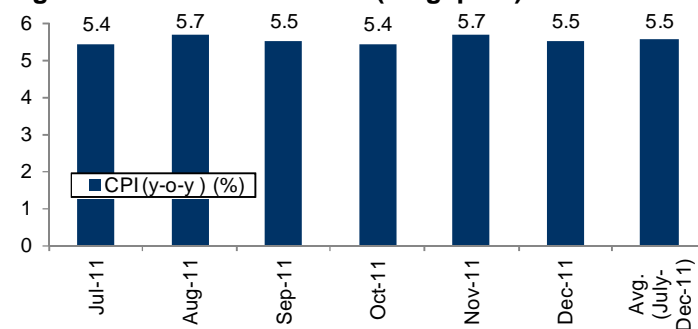


Source: Trust, PSR

Inflationary environment spurs organic rental growth for Singapore properties

Rent review mechanism for Singapore properties are based on CPI + 1% rental revision formula which is computed on a 12-month average basis from July to June of the following year. With the average CPI from July to December 2011 stood at 5.5%, we therefore presume 6% rental growth for the sixth year lease term.

Fig.5. Consumer Price Index (Singapore)



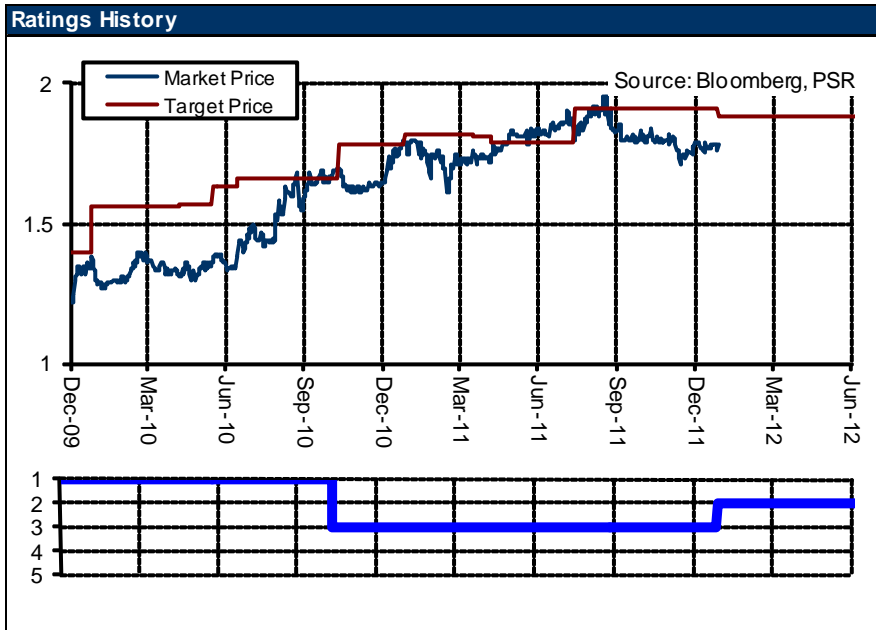
Source: CEIC, PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E basic (X)	14.8	16.6	10.6	18.5	17.8
P/B (X)	1.3	1.3	1.2	1.2	1.2
Dividend Yield (%)	4.3%	4.9%	5.4%	5.3%	5.5%
Per share data (SGD)					
EPS basic	0.121	0.108	0.169	0.097	0.100
DPS	0.077	0.088	0.096	0.094	0.098
BVPS	1.390	1.410	1.480	1.480	1.479
Growth & Margins (%)					
Growth					
Revenue	23.7%	20.0%	9.6%	3.9%	2.9%
EBIT	53.5%	20.2%	9.5%	3.2%	3.1%
Net Income	46.9%	16.9%	15.6%	3.1%	3.6%
EPS	194.9%	-11.0%	56.7%	-42.7%	3.8%
DPS	13.3%	13.6%	9.2%	-2.0%	3.7%
Margins					
Gross margin	93.0%	92.0%	91.5%	91.5%	91.5%
EBIT margin	64.5%	80.0%	80.1%	80.0%	79.5%
Distribution Margin	70.1%	66.4%	66.1%	65.7%	66.2%
Key Ratios					
ROE (%)	8.9%	7.7%	11.7%	6.5%	6.8%
ROA (%)	8.9%	7.7%	11.7%	6.5%	6.8%
Debt/total assets	0.27	0.34	0.35	0.35	0.35
Debt/equity	0.38	0.54	0.55	0.56	0.56
Interest coverage (x)	6.72	5.81	7.93	7.85	8.09
Income Statement (SGD mn)					
Gross revenue	66.7	80.0	87.8	91.2	93.8
Property expenses	(4.7)	(6.4)	(7.5)	(7.7)	(8.0)
Net property Income	62.0	73.6	80.3	83.4	85.9
Trust expenses	(2.4)	(2.3)	(2.8)	(3.0)	(3.1)
Management fees	(6.1)	(7.1)	(7.7)	(7.9)	(8.0)
Other expenses	(0.2)	(0.1)	0.4	0.0	0.0
EBIT	53.4	64.1	70.2	72.5	74.8
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expenses	(7.9)	(11.0)	(8.9)	(9.2)	(9.2)
Net income	45.4	53.1	61.4	63.3	65.6
Net change in fair value of properties	28.9	18.7	46.5	0.0	0.0
Net change in fair value of other investments	0.6	0.6	(0.4)	0.0	0.0
Total return before tax and distributions	74.9	72.4	107.5	63.3	65.6
Income tax expense	(2.0)	(7.3)	(5.5)	(4.8)	(4.8)
Total return after tax and before distribut	72.9	65.1	102.0	58.5	60.7
Available for distributions	46.7	53.2	58.1	59.9	62.1

Source: PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (SGD mn)					
Cash & equivalents	21.3	40.6	36.2	40.8	40.1
Trade and other receivables	6.8	7.6	8.4	9.8	10.1
Total current assets	28.1	48.2	44.6	50.6	50.2
Investment properties	1,152.9	1,302.6	1,384.0	1,382.9	1,381.9
Other non-current assets	0.9	1.0	1.0	1.0	1.0
Total non-current assets	1,153.8	1,303.6	1,385.0	1,384.0	1,382.9
Total Assets	1,181.8	1,351.8	1,429.6	1,434.6	1,433.1
Trade and other payables	10.5	12.3	12.8	13.9	14.3
Interest bearing borrowings	33.9	0.0	5.8	5.8	5.8
Others	2.5	3.0	2.1	2.1	2.1
Total current liabilities	46.8	15.3	20.7	21.8	22.2
Interest bearing borrowings	287.9	464.8	489.2	493.9	492.8
Other non-current liabilities	9.9	18.8	23.6	23.6	23.6
Total non-current liabilities	297.8	483.6	512.8	517.5	516.4
Total liabilities	344.6	498.8	533.4	539.3	538.6
Shareholder Equity	837.2	853.0	896.2	895.3	894.5
Cashflow Statements (SGD mn)					
CFO					
Total return before tax and distributions	74.9	72.4	107.5	63.3	65.6
Net (inc)/dec in working capital	0.4	(0.1)	(3.4)	(5.1)	(4.7)
Other operating cashflow	(20.3)	(6.8)	(37.3)	9.2	9.2
Cash flow from operations	55.0	65.5	66.8	67.4	70.1
CFI					
Purchase of investment properties	(83.0)	(117.2)	(10.2)	0.0	0.0
Others	(2.6)	(0.6)	(1.6)	0.0	0.0
Cashflow from investments	(85.5)	(117.8)	(11.8)	0.0	0.0
CFF					
Dividends paid	(45.4)	(51.1)	(57.5)	(59.4)	(61.5)
Inc/(dec) in debt	81.7	130.2	5.1	5.8	0.0
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	0.0
Other financing cash flows	(9.2)	(11.1)	(8.4)	(9.2)	(9.2)
Cashflow from financing	27.1	67.9	(60.8)	(62.8)	(70.8)
Net change in cash	(3.4)	15.6	(5.8)	4.6	(0.7)
Cash & cash eq at beginning of period	25.1	21.3	38.1	33.6	38.2
Effect of exchange rate + others	(0.4)	3.7	3.8	2.6	2.6
Cash & cash eq at end of period	21.3	40.6	36.2	40.8	40.1

Source: PSR



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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