

# PRIME US REIT

Towards normalisation

## SINGAPORE | REAL ESTATE | 1Q21 UPDATE

- 1Q21 NPI and distributable income met 23% of our FY21e estimates. Portfolio occupancy dipped 0.7% to 91.7%.
- 99% rent collection with minimal lease expiries of 8%/8.4% in FY21e/FY22e, evenly spread across properties. Leasing pick-up expected with greater return to offices.
- Downgrade to ACCUMULATE from BUY as recent share-price improvements have likely priced in some positives. DDM target price of US\$0.94 (COE 9.5%) unchanged.

### Update at a glance

(US\$'000)	1Q21	1Q20	YoY
Gross revenue	35940	35060	2.5%
Property expenses	12895	11548	11.7%
Net property income	23045	23512	-2.0%
Income available for distribution	17568	17782	-1.2%

Source: Company, PSR

### The Positives

**+ 1Q21 largely in line.** Although Covid-19 cases in the U.S. hit new highs in January, Prime's income was resilient. Rent collection remained strong at 99% with minimal rent concessions. Gross revenue and net property income were steady YoY. Property expenses increased 11.7% YoY due to a full quarter's share of Park Tower's expenses, acquired on 24 Feb 2020.

**+ High renewals; minimal FY21 expiries.** In 1Q21, Prime signed 57,647 sq ft of leases at positive rental reversions of 9.5%. More than 80% were renewals or for expansion by existing tenants. Leases were signed with Extend Health, CBRE and FLS Transportation, among others. Prime also signed 22,437 sq ft of short-term extensions. Leases due to expire in FY21 account for only 8% of cash rental income (CRI). These expiries are well spread across its properties with none above 1.4%. Month-to-month leases constitute only 0.7% of CRI.

### The Negative

**- Portfolio occupancy dipped 0.7% to 91.7%.** Several properties' occupancy dipped QoQ. The more notable declines were at 222 Main in Salt Lake City and Promenade I & II in San Antonio. 222 Main's occupancy fell 3% to 90.9%. That of Promenade I & II retreated 3.6% to 93.9%. The main reason was a few tenants left the buildings. January's Covid-19 spike halted leasing in those markets. As such, portfolio occupancy eased 0.7% to 91.7%. Still, this was well above the Class A office average of 84.3%.

20 May 2021

### ACCUMULATE (Downgraded)

LAST CLOSE PRICE	USD 0.850
FORECAST DIV	USD 0.074
TARGET PRICE	USD 0.940
TOTAL RETURN	19.3%

### COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN) :	1,060
MARKET CAP (USD mn / SGD mn) :	901 / 901
52 - WK HI/LO (SGD) :	0.88 / 0.68
3M Average Daily T/O (mn) :	0.90

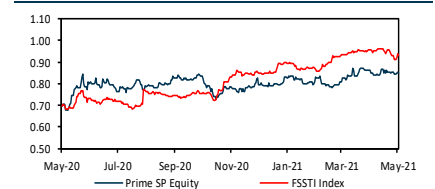
### MAJOR SHAREHOLDERS (%)

KBS PROPERTIES REIT III	27.3%
AT INVESTMENTS LTD	8.0%
KEPPEL CORP LTD	6.7%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.6)	7.4	12.9
STI RETURN	(0.8)	9.5	12.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY19*	FY20	FY21e	FY22e
Gross Rev (US\$'000)	60,656	143,557	147,470	153,621
NPI (US\$'000)	40,169	94,989	100,740	104,381
Dist. Inc. (US\$'000)	29,170	72,078	76,771	80,341
P/NAV (x)	1.08	0.92	1.00	1.01
DPU (US cents)	3.15	6.94	7.41	7.75
Dist. Yield (%)	3.26	8.16	8.72	9.12

\*19 July-31 Dec 2019

Source: Company, PSR

### VALUATION METHOD

DDM (Cost of Equity: 9.5%; Terminal g: 2.0%)

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The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).

## Outlook

**Leasing to pick up with greater return to offices.** Widespread Covid-19 vaccinations have resulted in a swifter return to offices than originally expected. According to a JLL Global Real Estate Perspective survey in May 2021, most companies across the trade sectors that Prime is exposed to are expecting at least 80% of their workforce to return gradually to the office from 2H21. Hybrid working could be the norm in the near term for major companies, especially in the financial and technology sectors. Come mid-2022, office employment is expected to match the pre-pandemic peak, as the U.S. is estimating the creation of 2.3mn office-using jobs over the next two years. Goldman Sachs, Prime's second-biggest tenant, has pushed for employees to return to the office by 14 July. Prime detects a pick-up in leasing in Denver and Atlanta. We expect its portfolio occupancy to improve closer to stabilised levels of 94-95% by 1H22.

**Looking out for acquisition opportunities.** There have been more interesting deals in the acquisition market of late, particularly for Class A office assets in urban centres. With low gearing of 33.8% and debt headroom of US\$290mn to a 45% gearing, Prime should be in a position to take advantage of opportunities.

**Downgrade to ACCUMULATE with unchanged DDM TP of US\$0.94.** Current price translates to an FY21e distribution yield of 8.7% for total potential upside of 19.3%. Prime's share price has appreciated 7% in the past three months, potentially pricing in some of its positives.

## Financials

### Income statement

Y/E Dec, (US\$'000)	FY19*	FY20	FY21e	FY22e
<b>Gross revenue</b>	<b>60,656</b>	<b>143,557</b>	<b>147,470</b>	<b>153,621</b>
Property expenses	(20,487)	(48,568)	(46,730)	(49,240)
<b>Net property income</b>	<b>40,169</b>	<b>94,989</b>	<b>100,740</b>	<b>104,381</b>
Net Finance (Expense)/Inc.	(7,038)	(14,868)	(14,868)	(14,868)
Manager's fees	(3,010)	(7,977)	(7,677)	(8,034)
Other items	(1,051)	(1,614)	(1,614)	(1,614)
FV change, derivatives & ppts	11,900	(45,291)	-	-
<b>Net income before tax</b>	<b>40,970</b>	<b>25,239</b>	<b>76,580</b>	<b>79,865</b>
Taxation	(7,268)	(2,030)	(13,585)	(14,168)
<b>Net income after Tax</b>	<b>33,702</b>	<b>23,209</b>	<b>62,995</b>	<b>65,697</b>
Distribution adjustments	(4,532)	48,869	13,776	14,644
<b>Income available for distribution</b>	<b>29,170</b>	<b>72,078</b>	<b>76,771</b>	<b>80,341</b>

### Per unit data

Y/E Dec	FY19*	FY20	FY21e	FY22e
NAV (US\$)	0.89	0.86	0.85	0.84
DPU (US cents)	3.15	6.94	7.41	7.75

### Cash Flow

Y/E Dec, (US\$'000)	FY19*	FY20	FY21e	FY22e
<b>CFO</b>				
<b>Net income before tax</b>	<b>40,971</b>	<b>25,239</b>	<b>76,580</b>	<b>79,865</b>
Adjustments	(5,290)	60,454	15,059	15,344
WC changes	8,743	3,754	5,209	(6,670)
<b>Cash generated from ops</b>	<b>44,424</b>	<b>89,447</b>	<b>96,848</b>	<b>88,539</b>
Others	-	406	-	-
<b>Cashflow from ops</b>	<b>44,424</b>	<b>89,853</b>	<b>96,848</b>	<b>88,539</b>

### CFI

Acquisition of investment propertie	(1,219,260)	(164,190)	-	-
Capex, net	(3,646)	(11,737)	(3,646)	(3,646)
Others	40	3	3	3
<b>Cashflow from investments</b>	<b>(1,222,866)</b>	<b>(175,924)</b>	<b>(3,643)</b>	<b>(3,643)</b>

### CFF

Proceeds from issuance of units	<b>813,000</b>	<b>120,000</b>	-	-
Loans, net of repayments	426,988	32,829	(14,871)	(14,871)
Distributions	-	(65,004)	(76,771)	(80,341)
Others	(23,703)	(2,247)	-	-
<b>Cashflow from financing</b>	<b>1,216,285</b>	<b>85,578</b>	<b>(91,642)</b>	<b>(95,212)</b>
<b>Net change in cash</b>	<b>37,843</b>	<b>(493)</b>	<b>1,563</b>	<b>(10,316)</b>
Cash at the start of the period	1	37,862	37,442	39,005
FX changes	18	73	-	-
<b>Ending cash</b>	<b>37,862</b>	<b>37,442</b>	<b>39,005</b>	<b>28,689</b>

\*19 July-31 Dec 2019

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (US\$'000)	FY19*	FY20	FY21e	FY22e
<b>ASSETS</b>				
Investment properties	1,254,700	1,405,200	1,408,846	1,412,492
<b>Total non-current assets</b>	<b>1,254,700</b>	<b>1,405,200</b>	<b>1,408,846</b>	<b>1,412,492</b>
Trade receivables	2,411	1,623	3,709	1,845
Cash	37,862	37,442	39,005	28,689
Others	2,200	2,584	544	2,714
<b>Total current assets</b>	<b>42,473</b>	<b>41,649</b>	<b>43,258</b>	<b>33,249</b>
<b>Total Assets</b>	<b>1,297,173</b>	<b>1,446,849</b>	<b>1,452,104</b>	<b>1,445,741</b>
<b>LIABILITIES</b>				
Trade payables	16,646	14,540	21,985	13,158
Rent received in advance	5,061	6,493	4,402	6,790
Others	752	860	761	837
<b>Total current liabilities</b>	<b>22,459</b>	<b>21,893</b>	<b>27,148</b>	<b>20,785</b>
Loans and borrowings	432,824	480,352	480,352	480,352
Others	16,582	36,812	44,258	52,287
<b>Total non-current liabilities</b>	<b>449,406</b>	<b>517,164</b>	<b>524,610</b>	<b>532,639</b>
<b>Total Liabilities</b>	<b>471,865</b>	<b>539,057</b>	<b>551,758</b>	<b>553,424</b>
<b>Net assets</b>	<b>825,308</b>	<b>907,792</b>	<b>900,346</b>	<b>892,317</b>
<b>Represented by:</b>				
Unitholders' funds	825,308	907,792	900,346	892,317

### Valuation Ratios

Y/E Dec	FY19*	FY20	FY21e	FY22e
P/NAV (x)	1.1	0.9	1.0	1.0
Distribution Yield (%)	3.3	8.2	8.7	9.1
NPI yield (%)	3.2	7.1	7.2	7.4

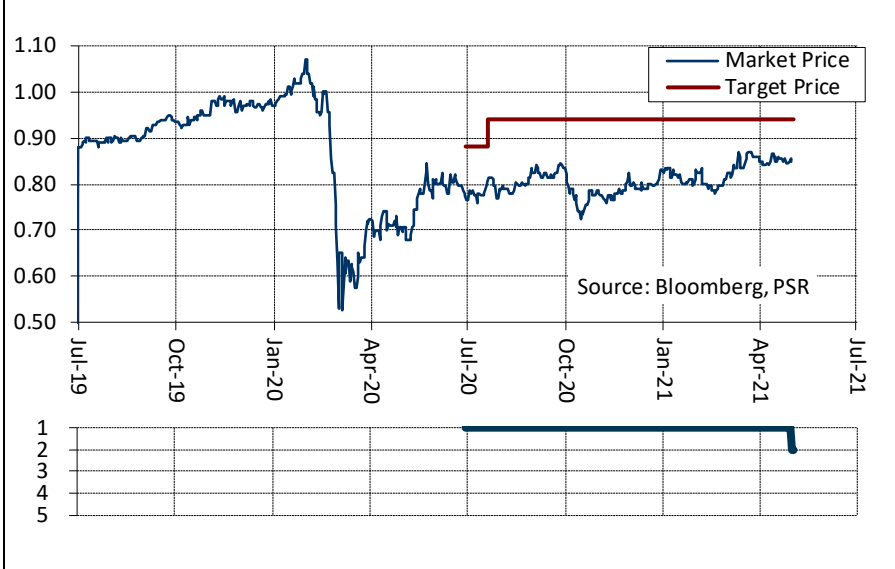
### Growth & Margins

Growth				
Revenue	nm	136.7%	2.7%	4.2%
Net property income (NPI)	nm	136.5%	6.1%	3.6%
Distributable income	-	nm	6.5%	4.6%
DPU	-	nm	6.7%	4.6%
Margins				
NPI margin	66.2%	66.2%	68.3%	67.9%

### Key Ratios

Net Debt or (Net Cash)	394,962	442,910	441,347	451,663
Gearing	34.5%	34.2%	34.1%	34.0%

**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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