

# Prime US REIT

Bottoming out expected at year-end

## SINGAPORE | REAL ESTATE | 1H21 RESULTS

- 1H21 NPI and distributable income met expectations, at 46% of our FY21e estimates. Despite higher rental reversions and income contributions from Park Tower, NPI declined 2.3% YoY due to lower portfolio occupancy and transient parking income.
- Two new properties were acquired in new markets with longer WALEs and higher occupancies than portfolio. We expect greater resilience and earnings visibility from an enlarged portfolio.
- Maintain ACCUMULATE and DDM target price of US\$0.94 (COE 9.5%). FY21e/FY22e DPUs lowered by 10.5%/0.7% to reflect lower carpark income and softer leasing, offset by reversions and rental income from new acquisitions. Catalysts include improved leasing and a greater return to office.

### Results at a glance

(US\$'000)	1H21	1H20	YoY
Gross revenue	59,364	57,840	2.6%
Property expenses	-13,024	-10,390	25.4%
Net property income	46,340	47,450	-2.3%
Income available for distribution	35,425	35,878	-1.3%
DPU	3.33	3.52	-5.4%

Source: Company, PSR

### The Positives

**+ Positive reversions.** Prime signed 52,349 sq ft of leases in 2Q21 at positive rental reversions of 10.5%. Excluding short-term lease extensions of 9,931 sq ft, rental reversions were 13.3%. This could be credited to leases signed at 101 South Hanley and Tower 909, where expiring rents are 11-13.5% below market. Positive rent reversions are expected going into 3Q, as portfolio rents are below asking rents by 6.4%.

**+ Acquisitions enhance resilience.** As of 23 July, Prime completed the acquisition of two new properties: Sorrento Towers in San Diego and One Town Center in Florida. San Diego is one of the top 10 tech cities in the US, where demand from the biotechnology, biopharmaceutical, international trade, high-tech and defence sectors is strong. South Florida is one of the top 10 states for population in-migration thanks to its favourable tax climate and quality of life. These acquisitions introduce Prime to two new markets and increase its exposure to key industry sectors. They have also extended its portfolio WALE from 4.4 to 4.6 years. Occupancy at both properties is above portfolio occupancy of 91.7%, at 98.2% and 94.7% respectively. This improves earnings visibility. The acquisitions were funded by debt and equity. Proforma DPU could be lifted by an estimated 2.4% after acquisition, based on FY20 figures.

### The Negative

**- Lower portfolio occupancy and carpark income vis-à-vis a year ago.** Despite its positive rental reversions and contributions from Park Tower acquired on 24 February 2020, 1H21 gross revenue climbed only 2.6% YoY. This is due to lower portfolio occupancy of 91.7% as compared to 93% a year ago, as well as reduced transient parking income which historically comprised mid to high single digits of Prime's topline. Property expenses also increased 25.4% YoY with new expenses from Park Tower. As such, NPI and distributable income fell 2.3%/1.3% YoY. DPU declined 5.4% YoY from a larger unit base.

5 August 2021

### ACCUMULATE (Maintained)

LAST CLOSE PRICE	USD 0.825
FORECAST DIV	USD 0.066
TARGET PRICE	USD 0.940
TOTAL RETURN	22.0%

### COMPANY DATA

BLOOMBERG CODE:	PRIME SP
O/S SHARES (MN):	1,161
MARKET CAP (USD mn / SGD mn):	975 / 975
52 - WK HI/LO (SGD):	0.88 / 0.72
3M Average Daily T/O (mn):	1.06

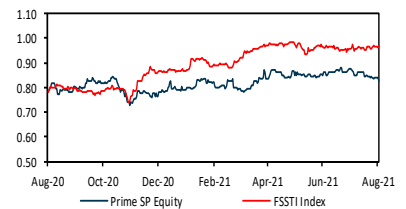
### MAJOR SHAREHOLDERS (%)

KBS PROPERTIES REIT III	24.9%
DBS GROUP HOLDINGS	8.3%
AT INVESTMENTS LTD	7.3%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.0)	2.7	15.2
STI RETURN	0.7	(0.2)	12.6

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY19*	FY20	FY21e	FY22e
Gross Rev (US\$'000)	60,656	143,557	152,858	166,770
NPI (US\$'000)	40,169	94,989	100,997	113,416
Dist. Inc. (US\$'000)	29,170	72,078	77,023	89,199
P/NAV (x)	1.08	0.92	0.97	0.98
DPU (US cents)	3.15	6.94	6.64	7.69
Dist. Yield (%)	3.26	8.41	8.05	9.33

\*19 July-31 Dec 2019

Source: Company, PSR

### VALUATION METHOD

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

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## Outlook

**Leasing weakness may persist in 3Q21.** Aided by widespread vaccinations and a return of employees to their offices, physical occupancy increased to 25-30% from 15-20% in the last 30 days. Leasing, however, remains below pre-pandemic levels, especially with continued new supply in CBD submarkets. National office vacancies rose to 17.2% in 2Q21 from 15.7% in 1Q21. Although Prime has been discussing leasing with prospective tenants especially in Denver and tours of office space increased over 80% from January to May 2021 according to VTS, actual space commitments usually lag leasing decisions by a few months. This means that committed portfolio occupancy can be expected to bottom out only in 4Q this year.

## **Maintain ACCUMULATE and DDM TP of US\$0.94.**

We factor in additional income from its newly acquired properties but lower our rental and occupancy assumptions for FY21e to capture declines in its carpark income and a softer leasing market. After accounting for a larger unit base, DPU estimates for FY21e/FY22e have been lowered by 10.5% and 0.7% respectively. Our TP is largely unchanged. Current price translates to FY21e distribution yields of 8.1% for total potential upside of 22.0%.

## 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>152,858</b>	<b>166,770</b>
Property expenses	(20,487)	(48,568)	(51,861)	(53,354)
<b>Net property income</b>	<b>40,169</b>	<b>94,989</b>	<b>100,997</b>	<b>113,416</b>
Net Finance (Expense)/Inc.	(7,038)	(14,868)	(14,868)	(14,868)
Manager's fees	(3,010)	(7,977)	(7,702)	(8,920)
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>76,812</b>	<b>88,014</b>
Taxation	(7,268)	(2,030)	(13,626)	(15,613)
<b>Net income after Tax</b>	<b>33,702</b>	<b>23,209</b>	<b>63,186</b>	<b>72,400</b>
Distribution adjustments	(4,532)	48,869	13,837	16,798
<b>Income available for distribution</b>	<b>29,170</b>	<b>72,078</b>	<b>77,023</b>	<b>89,199</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	6.64	7.69

### 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>76,812</b>	<b>88,014</b>
Adjustments	(5,290)	60,454	15,079	16,053
WC changes	8,743	3,754	4,900	(2,408)
<b>Cash generated from ops</b>	<b>44,424</b>	<b>89,447</b>	<b>96,791</b>	<b>101,659</b>
Others	-	406	-	-
<b>Cashflow from ops</b>	<b>44,424</b>	<b>89,853</b>	<b>96,791</b>	<b>101,659</b>

### CFI

Acquisition of investment propertie	(1,219,260)	(164,190)	(247,700)	-
Capex, net	(3,646)	(11,737)	(8,505)	(3,646)
Others	40	3	3	3
<b>Cashflow from investments</b>	<b>(1,222,866)</b>	<b>(175,924)</b>	<b>(256,202)</b>	<b>(3,643)</b>

### CFF

Proceeds from issuance of units	<b>813,000</b>	<b>120,000</b>	<b>80,000</b>	-
Loans, net of repayments	426,988	32,829	154,729	(14,871)
Distributions	-	(65,004)	(77,023)	(89,199)
Others	(23,703)	(2,247)	-	-
<b>Cashflow from financing</b>	<b>1,216,285</b>	<b>85,578</b>	<b>157,706</b>	<b>(104,070)</b>
<b>Net change in cash</b>	<b>37,843</b>	<b>(493)</b>	<b>(1,705)</b>	<b>(6,054)</b>
Cash at the start of the period	1	37,862	37,442	35,737
FX changes	18	73	-	-
<b>Ending cash</b>	<b>37,862</b>	<b>37,442</b>	<b>35,737</b>	<b>29,683</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	1,661,405	1,665,051
<b>Total non-current assets</b>	<b>1,254,700</b>	<b>1,405,200</b>	<b>1,661,405</b>	<b>1,665,051</b>
Trade receivables	2,411	1,623	3,904	2,126
Cash	37,862	37,442	35,737	29,683
Others	2,200	2,584	658	2,879
<b>Total current assets</b>	<b>42,473</b>	<b>41,649</b>	<b>40,299</b>	<b>34,688</b>
<b>Total Assets</b>	<b>1,297,173</b>	<b>1,446,849</b>	<b>1,701,704</b>	<b>1,699,739</b>
<b>LIABILITIES</b>				
Trade payables	16,646	14,540	21,985	17,016
Rent received in advance	5,061	6,493	4,402	7,199
Others	752	860	761	968
<b>Total current liabilities</b>	<b>22,459</b>	<b>21,893</b>	<b>27,148</b>	<b>25,183</b>
Loans and borrowings	432,824	480,352	649,952	649,952
Others	16,582	36,812	44,299	53,774
<b>Total non-current liabilities</b>	<b>449,406</b>	<b>517,164</b>	<b>694,251</b>	<b>703,726</b>
<b>Total Liabilities</b>	<b>471,865</b>	<b>539,057</b>	<b>721,399</b>	<b>728,909</b>
<b>Net assets</b>	<b>825,308</b>	<b>907,792</b>	<b>980,305</b>	<b>970,830</b>
<b>Represented by:</b>				
Unitholders' funds	825,308	907,792	980,305	970,830

### Valuation Ratios

Y/E Dec	FY19*	FY20	FY21e	FY22e
P/NAV (x)	1.1	0.9	1.0	1.0
Distribution Yield (%)	3.3	8.4	8.1	9.3
NPI yield (%)	3.2	7.1	6.6	6.8

### Growth & Margins

Growth				
Revenue	nm	136.7%	6.5%	9.1%
Net property income (NPI)	nm	136.5%	6.3%	12.3%
Distributable income	-	nm	6.9%	15.8%
DPU	-	nm	-4.3%	15.8%

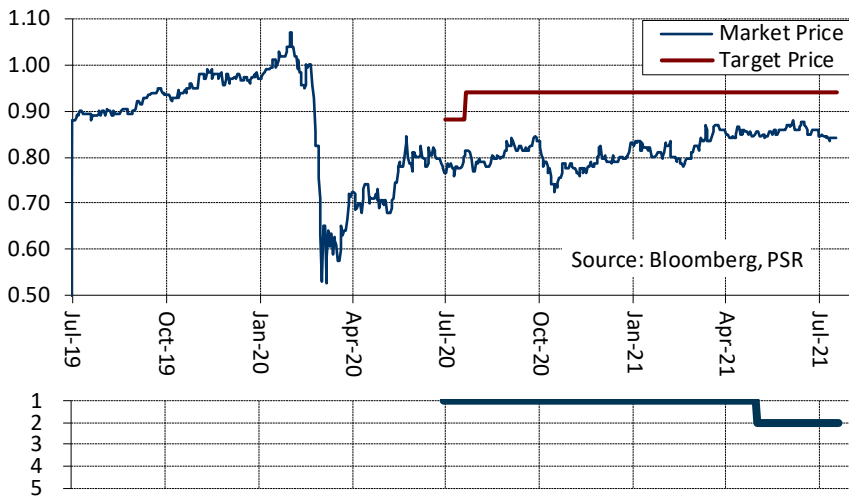
### Margins

NPI margin	66.2%	66.2%	66.1%	68.0%
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### Key Ratios

Net Debt or (Net Cash)	394,962	442,910	614,215	620,269
Gearing	34.5%	34.2%	39.1%	39.0%

**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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