Singapore Sector Update

12 July 2019

Property | REITS

US Office REITS

Overweight (Maintained)

Underappreciated, Undervalued; Stay O/W

Stocks Covered	2
Ratings (Buy/Neutral/Sell):	2 / 0 / 0
Last 12m Earnings	Positive

- **Maintain OVERWEIGHT; market fundamentals remain sound.** We recently visited some US office REIT assets, which reaffirmed our positive sector outlook. US office REITs listed on SGX currently offer an average FY19F yield of 7.4%, 220bps higher than Singapore office REITs' average. It is also 380bps higher than average office REITs listed in the US. We believe this high yield gap is unjustified – given the positive sector outlook, freehold tenure, built-in rent escalations and long WALE. MUST remains our Top Pick and we initiate coverage on Keppel-KBS US REIT with BUY.
- **Three key factors driving US office market.** From our discussions with consultants, tenants, and landlords, we see three reasons driving sector growth: high replacement costs (rising land and construction cost), prudent bank funding limiting speculative supply, and the rise of co-working operators that are fast absorbing vacant spaces thus pushing up rents.
- **Favourable demand-supply dynamics.** Based on data from JLL, the US office market continued its growth streak in 1Q19, with net absorption of 14m sqf, driving vacant rates lower to 14.7% and rents higher by 2.4% YoY. Leasing demand remains robust with ~40% of leasing coming from expansionary demand, and underpinning good market fundamentals. Key sectors driving demand include co-working, technology, financial and insurance. On the supply front, while office deliveries in the US are expected to surge in 2H19, supply in most of the micro markets where REIT assets are located remains favourable, based on market research data.
- **US Fed's dovish stance favours REITs and mitigates rising interest cost threat.** With the increasing likelihood of the US Fed cutting interest rates, demand for yield instruments like REITs is expected to remain strong. This also mitigates the threat of rising interest costs impacting DPU, with debt cost having fallen by 50-100bps vs the beginning of the year.
- **Removal of tax overhang provides room for more upside.** The US Department of Treasury released proposed regulations under Section 267A (Dec 2018), which are not expected to have any impact on the existing tax structure of US office REITs. The final regulations are expected to be announced soon. In addition, based on draft regulations, US office REITs can potentially revert to their IPO tax structures (avoiding the need for intermediate entities), which will result in additional tax savings of up to 2%.
- **Growing listing pipeline benefits sector growth.** The planned listing of more US-based commercial REITs should help investors gain better market understanding, widen the investor base, and boost sector liquidity. The above factors should also help narrow the current high yield gap that should benefit early investors in the sector.
- **US office REITs relatively undervalued.** On average, US-office REITs listed on SGX currently offer a FY19F dividend yield of 7.4%. In comparison, Singapore office REITs offer an average yield of 5.2%, while office REITs listed in the US offer 3.6% yield. In addition, US office REITs' dividends are not subject to Singapore corporate taxes in the hands of institutional unit holders, thus further boosting the underlying yield.
- **Key risks** include failure of the co-working model, declining trend of office space per employee, and threat from terrorism and natural disasters.

Company Name	Rating	TP	% Upside (Downside)	P/E (x) FY-1	P/B(x) FY-1	Yield (%) FY-1
Manulife US REIT	Buy	USD0.98	11.3	13.2	1.1	6.8
Keppel-KBS US REIT	Buy	USD0.88	12.1	11.4	1.0	7.9

Source: Company data, RHB

Top Picks	**Target Price**
Manulife US REIT (MUST SP) – BUY	USD0.98
Keppel KBS US REIT (KORE SP) – BUY	USD0.88

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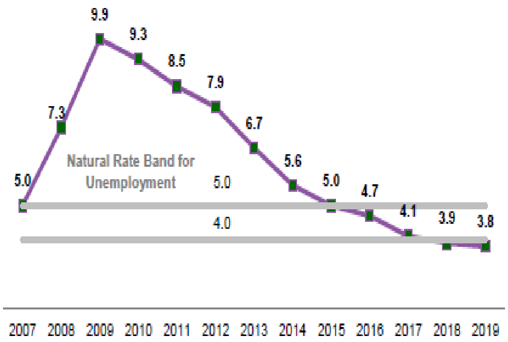
US unemployment rate (%)



Source: Department of Labour, MUST

Comparison Of US Office REITs

Comparing MUST with KORE, we find that MUST has a very high-quality asset portfolio with higher occupancy, longer WALE, and bigger blue chip tenants – thus offering a more defensive and stable earnings profile.

On the other hand, KORE's campus-style portfolio offers more growth potential over the near term, with room for occupancy improvements and rental adjustments on the back of strong tech-driven office demand in its key markets like Seattle and Austin. Taking into account portfolio sizes, stock liquidity and historical track records, we believe MUST's portfolio deserves to trade at a 75-100bps yield spread over KORE.

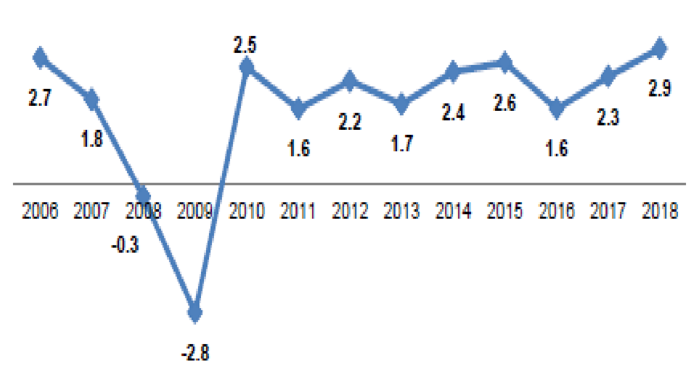
Figure 1: Key comparison of US office REITs

No.	Factors	Manulife US REIT*	Keppel KBS US REIT**	Prime US REIT***
Asset and sponsor details				
1	Total number of assets	8 freehold properties	13 freehold properties	11 freehold properties
2	Asset Size (USD bn)	1.9	1.1	1.2
3	Asset Class	Trophy & Class A	Class A & Class B	Trophy & Class A
4	Market locations (as % of AUM)	Atlanta (22% of AUM), Secaucus (6%), Jersey City (18%), Los Angeles (18%), Irvine (19%), Fairfax (7%) and Washington D.C. (10%)	Seattle (53%), Denver (12%), Austin (8%), Orlando (9%), Houston (11%), Atlanta (4%) and Sacramento (3%)	California (10%), Utah (17%), Denver (19%),Missouri (7%), Dallas (6%), San Antonio (6%), Washington D.C. (13%), Pennsylvania (8%) and Atlanta (14%)
5	Key Tenants (Top 3)	The William Carter Co. - 7.3%, TCW Group - 5.0%, and Kilpatrick Townsend -4.8%	Ball Aerospace - 2.9%, Oculus VR, LLC -2.4% and Zimmer Biomet Spine - 2.3%	Charter Communications -8.9%, Goldman Sachs -6.0% and Sodexo Operations (5.9%)
6	Key Trade Sector	Legal – 20.6%, Finance – 20.1%, Retail Trade -14.5%	Professional Services - 37.5%, Technology - 24.1%, Finance and Insurance - 18.9%.	Finance - 16.5%, Legal - 13.3% Communications - 11.9%.
7	Sponsor	Manulife	Keppel Capital and KBS Pacific Advisors	KBS Asia Partners Pte. Ltd.
8	Sponsor stake (%)	Manulife - 6.4%	KBS SOR - 6.9% , Keppel Capital - 7.7%	KBS Units - 24.7%
9	Sponsor size AUM	Global Real Estate AUM - USD 17.4bn	KBS AUM - USD 11.6bn	KBS AUM - USD 11.6bn
Operating metrics				
10	Occupancy (%)	97.6%	92.1%	96.7%
11	Total tenants (based on latest available data)	138	422	180
12	Rent Escalations	2.5% - 3%p.a	~3%p.a	1-3%p.a, Average 2.1%
13	WALE (years) - by cash rental income	6.1 years	3.9 years	5.5 years
14	Gearing (%)	36.8%	38.1%	37.0%
15	Debt Profile	Fixed - 98.2%, Floating - 1.8%	Fixed - 77%, Floating 23%	Fixed - 85.1%, Floating - 14.9%
16	Weighted Average Debt Maturity	2.5 years	3.6 years	5.6 years
17	Debt Cost (%)	3.28%p.a	3.76%p.a	3.45%p.a
Valuation metrics				
18	Market Cap (USD m)	1,238	644	813
19	Dividend Yield - FY19F (%)	6.7	7.9	7.4
20	NAV, P/BV	NAV - 0.80, P/B -1.1	NAV - 0.78, P/B -1.0	NAV - 0.84, P/B - 1.05
21	Free Float (%)	91%	77%	75%

*Note1: * Based on latest available data including acquisitions in May 2019*
*Note 2:**Based on 1Q19 data*
*Note 3:***Based on IPO prospectus*
Source: Companies data, Bloomberg, RHB

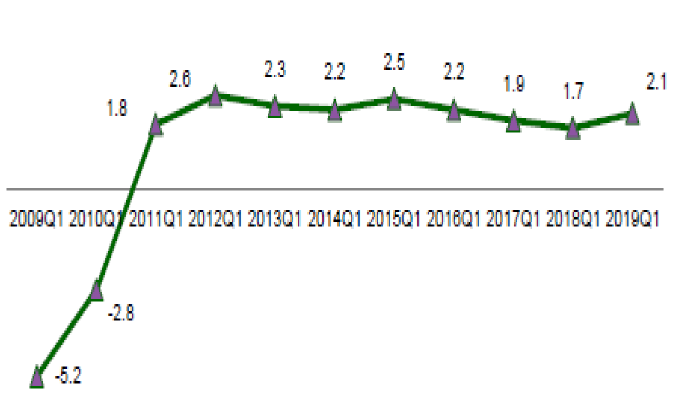
Key Charts

Figure 2: US GDP growth (YoY %)



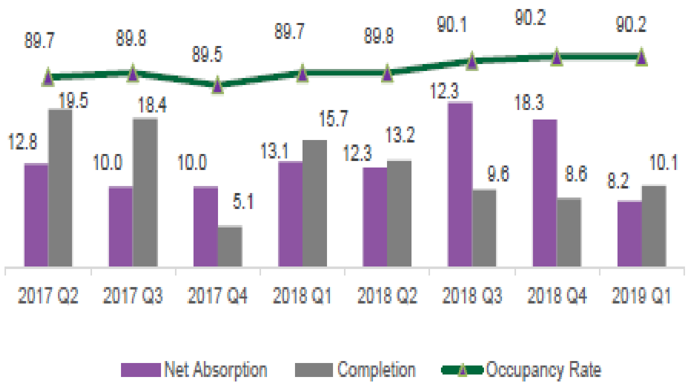
Source: US Department of Commerce, Bureau of Economic Analysis

Figure 3: US office employment (YoY %)



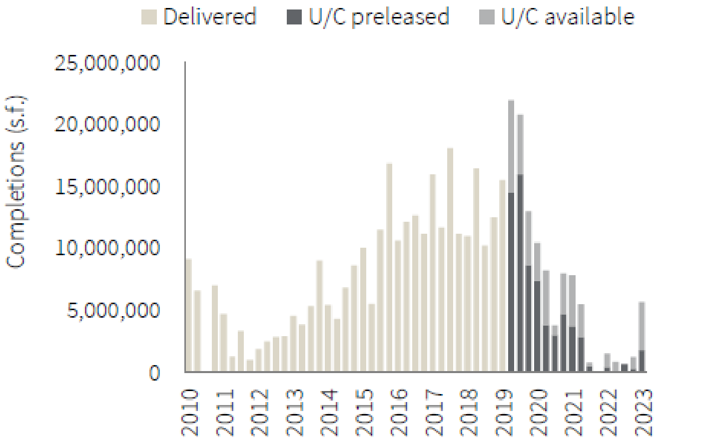
Source: CoStar Market Analysis & Forecast Reports

Figure 4: US office net absorption and occupancy rates (%)



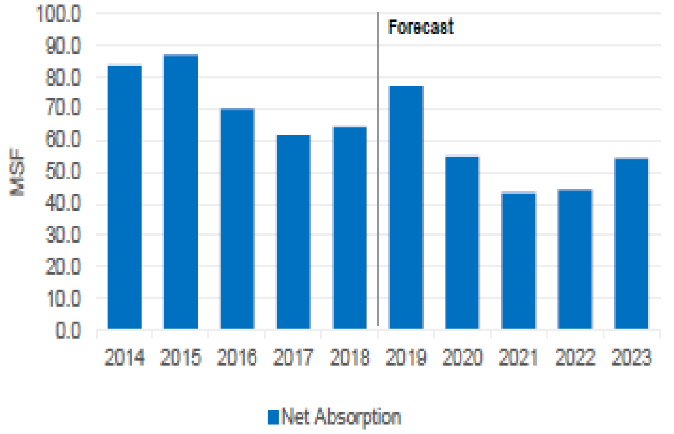
Source: CoStar Market Analysis & Forecast Reports

Figure 5: Office deliveries and pre-commitments



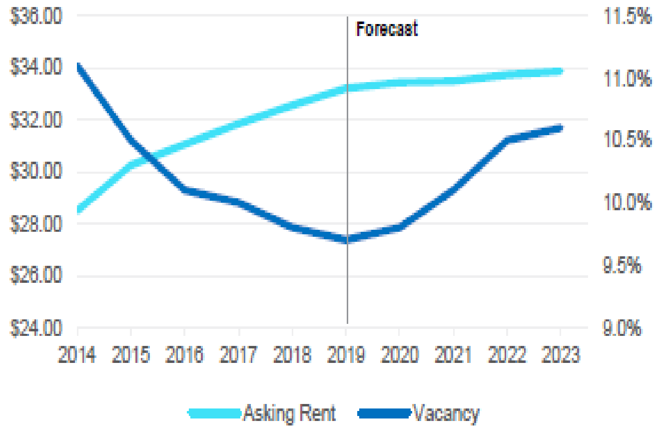
Source: JLL Research

Figure 6: Overall net absorption



Source: CoStar report dated April 2019

Figure 7: Office asking rent and vacancy rates



Source: CoStar report dated April 2019

SREITs: Looking Into The Numbers

Figure 8: Peer comparison – Singapore office REITs vs US Office REITs

	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	Gearing/ simple ave	WALE (years)	Lease Expiry % FY-1	% FY-2
S-REITs	**76,857**	**169,849**		**0.1**	**(0.6)**	**3.6**	**6.3**	**13.9**	**15.2**	**18.4**	**24.5**	**(4.0)**	**1.2**	**5.3**	**5.4**	**3.3**	**34.7%**			
Keppel-KBS US REIT	**645**	**633**	**0.79**	**0.6**	**1.9**	**4.0**	**6.1**	**19.8**	**(3.4)**	**28.7**	**48.1**	**(5.6)**	**0.98**	**7.9**	**8.2**	**5.9**	**35.1%**	**4.0**	**12%**	**16%**
Manulife US REIT	1,230	1,206	0.88	(0.6)	0.0	2.3	2.3	8.6	2.9	14.3	26.6	(1.7)	1.08	6.8	6.8	4.8	37.2%	5.8	10%	8%
US Office S-REITs	**938**	**920**		**0.0**	**1.0**	**3.1**	**4.2**	**14.2**	**(0.2)**	**21.5**	**37.4**	**(3.6)**	**1.0**	**7.4**	**7.5**	**5.3**	**36.2%**	**4.9**	**11%**	**12.0%**
CapitaLand Commercial Trust	6,050	21,057	2.19	0.5	(1.8)	7.4	10.6	20.3	25.9	25.1	32.7	(5.2)	1.21	4.1	4.1	2.1	34.9%	5.8	18%	26%
Suntec REIT	4,036	15,273	1.96	0.5	(0.5)	3.7	0.5	5.4	7.1	10.1	14.0	(2.5)	0.94	5.1	5.1	3.1	38.1%	3.8	8%	18%
Keppel REIT	3,158	5,425	1.26	(0.8)	(1.6)	1.6	0.0	8.6	11.5	10.5	14.5	(3.1)	0.91	4.8	4.8	2.8	36.3%	5.9	4%	8%
OUE Commercial Trust	1,118	385	0.53	1.0	2.9	8.2	5.0	10.4	(11.4)	15.2	17.8	(13.3)	0.75	6.4	6.4	4.4	39.3%	2.3	19%	29%
Frasers Commercial Trust	1,108	2,702	1.66	(0.6)	(1.2)	6.4	12.2	16.9	16.1	21.2	23.0	(2.4)	1.06	5.8	6.0	3.9	28.4%	4.6	18%	13%
Office REITS (excl. MUST)	**3,094**	**8,968**		**0.1**	**(0.4)**	**5.4**	**5.6**	**12.3**	**9.8**	**16.4**	**20.4**	**(5.3)**	**1.0**	**5.2**	**5.3**	**3.3**	**35.4%**	**4.5**	**13%**	**19%**

*Note: *Closing price as at 10 July 2019*
Source: RHB, Bloomberg

Figure 9: US office REIT peers

	BBG Ticker	Market cap (USDm)	3M-ave volume ('000)	Last price (LCY)	1D	5D	1M	3M	6M	12M	YTD	vs 52W-low	vs 52W-high	P/B (x)	Div yield
U.S. Office REITs		**104,647**	**740.66**		**0.4**	**1.8**	**0.3**	**(0.5)**	**12.3**	**1.5**	**19.9**	**25.1**	**(8.2)**	**1.7**	**3.6**
Boston Properties Inc	BXP US Equity	20,686	677.8	133.87	1.4	2.0	0.1	(3.3)	12.4	6.3	18.9	24.1	(4.6)	3.67	2.9
SL Green Realty Corp	SLG US Equity	6,965	673.8	81.60	0.5	0.8	(7.2)	(10.1)	(6.8)	(19.8)	3.2	6.3	(23.4)	1.22	4.2
Columbia Property Trust Inc	CXP US Equity	2,519	469.2	21.55	0.6	1.8	(0.3)	(5.7)	7.3	(6.1)	11.4	19.2	(14.0)	0.93	3.7
Piedmont Office Realty Trust Inc	PDM US Equity	2,587	753.7	20.60	0.2	2.4	0.3	(2.3)	13.7	2.1	20.9	25.3	(3.7)	1.50	4.1
Brandywine Realty Trust	BDN US Equity	2,605	1,621.3	14.79	0.3	1.1	(3.6)	(7.5)	6.6	(12.3)	14.9	20.0	(13.3)	1.47	5.2
Corporate Office Properties Trust	OFC US Equity	3,107	707.1	27.76	0.2	2.2	(3.7)	0.2	17.4	(7.0)	32.0	38.6	(10.5)	1.93	4.0
Mack-Cali Realty Corp	CLI US Equity	2,156	419.1	23.87	0.1	2.2	2.2	6.1	17.6	17.0	21.8	27.4	(4.1)	1.27	3.4
City Office REIT Inc	CIO US Equity	482	192.8	12.15	(0.5)	(1.9)	0.6	7.3	8.6	(5.8)	18.5	24.9	(7.1)	1.96	7.7
Alexandria Real Estate Equities Inc	ARE US Equity	17,568	882.2	148.92	0.6	3.2	(1.4)	3.8	23.7	16.3	29.2	36.6	(3.0)	2.20	2.6
Kilroy Realty Corp	KRC US Equity	7,785	467.0	77.10	(0.3)	2.1	3.1	0.8	15.0	1.2	22.6	30.6	(2.4)	1.98	2.4
Douglas Emmett Inc	DEI US Equity	7,038	792.6	41.33	0.5	2.2	1.1	(0.3)	17.2	2.5	21.1	27.9	(2.5)	2.98	2.5
Highwoods Properties Inc	HIW US Equity	4,573	590.2	44.10	0.6	2.6	0.6	(4.9)	4.6	(13.7)	14.0	18.9	(14.3)	2.12	4.3
Paramount Group Inc	PGRE US Equity	3,370	1,233.3	14.37	0.7	1.6	(1.5)	(0.6)	8.4	(7.8)	14.4	18.0	(10.5)	0.84	2.8
Equity Commonwealth	EQC US Equity	4,085	530.2	33.51	0.5	1.6	(0.2)	2.5	9.0	14.5	11.7	17.7	(2.0)	1.25	0.0
Hudson Pacific Properties Inc	HPP US Equity	5,402	862.3	34.99	1.7	2.9	2.0	1.0	16.2	(1.4)	20.4	29.0	(2.5)	1.56	2.9
Empire State Realty Trust Inc	ESRT US Equity	2,717	1,149.2	15.34	0.9	1.5	0.6	(3.1)	2.8	(11.0)	7.8	12.3	(14.1)	2.24	2.8
Cousins Properties Inc	CUZ US Equity	5,569	2,374.6	38.01	0.8	2.5	2.2	(2.3)	11.5	(0.7)	20.3	26.2	(5.9)	1.45	3.0
CIM Commercial Trust Corp	CMCT US Equity	892	14.5	20.37	(1.5)	(2.1)	(0.6)	4.2	24.0	35.3	34.2	57.9	(4.8)	1.43	N.M
Franklin Street Properties Corp	FSP US Equity	833	310.1	7.77	1.0	2.5	3.3	1.4	12.8	(12.1)	24.7	32.4	(15.7)	1.02	4.6
Tier REIT Inc	TIER US Equity	1,603	377.2	28.88	N.M	N.M	4.2	0.2	34.1	22.2	40.0	0.0	(4.0)	2.05	N.M
NorthStar Realty Europe Corp	NRE US Equity	840	613.7	17.01	0.1	3.9	4.9	(2.7)	4.2	21.1	17.0	36.1	(7.8)	1.25	N.M
Easterly Government Properties Inc	DEA US Equity	1,267	582.6	18.6	0.2	2.4	1.1	4.1	9.5	(6.9)	18.8	22.8	-9.4	1.3	5.6

*Note: *Closing price as at 10 Jul 2019*
Source: RHB, Bloomberg

Singapore Company Update

12 July 2019

Property | REITS

Manulife US REIT (MUST SP)

Buy (Maintained)

Seeing Is Believing; Top BUY

Target Price (Return)	USD0.98 (+11%)
Price:	USD0.88
Market Cap:	USD1,230m
Avg Daily Turnover (SGD/USD)	1.1m/0.8m

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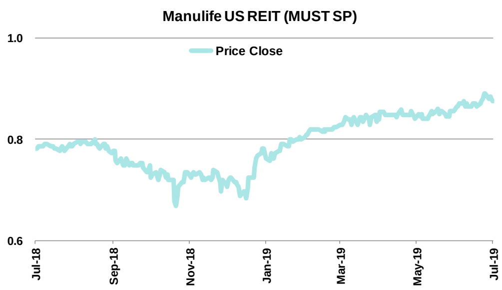
- **Stay BUY with a higher USD0.98 TP from USD0.96, 11% upside with 7% FY20F yield.** Our recent visit to some Manulife US REIT assets reaffirms that they stand apart from the crowd. Given favourable market conditions and flight to quality acting as tailwinds, we expect the positive rent reversions to continue. Valuations are relatively attractive: 6.8% yields (>160bps above the office SREIT average) and 1.1x P/BV.
- **One of MUST's key strengths,** in our view, is its strong asset quality, as they are well-connected with amenities surrounding them. From our discussions with consultants, we understand that this has been the topmost consideration for businesses leasing office spaces, so as to employ and retain a high-quality workforce in the current strong job market conditions. JLL's latest office report (1Q19) also highlights flight to quality as a key trend over the last two years. The above is reflected in MUST's operating performance, with portfolio occupancy steadily increasing to 97.4% – well above the market average – along with high single-digit positive rent reversions. The early extension of Hyundai Capital America's lease (~97,000sqf) in Jan 2019 for another 11 years adds another testimony to tenants' preference for MUST's assets.
- **Market fundamentals remain strong.** The strong rebound in job numbers (June) in the US indicates that hiring activity remains resilient for now, despite trade tensions. In 1Q19, expansionary activity accounted for 40% of leasing demand, led by tenants from the finance, technology, and co-working sectors, according to JLL's research. MUST's portfolio also benefitted from this trend, with one of Peachtree's co-working tenants expanding its current office space by 50%. Other supportive factors include high replacement costs, especially in markets like Atlanta, which has limited new supply growth. With average rent (except Michelson) still 5-10% below market, we see room for upsides.
- **Upsides ahead from tax structure rollback and inclusion in the NAREIT Index.** MUST is currently awaiting the finalisation of proposed US tax regulations (Dec 2018) that are expected to be announced soon. Based on the proposed regulations, the REIT should be able to roll back to its IPO tax structure – avoiding the need for a Barbados entity – that is likely to result in additional tax savings of ~2%. In addition, post recent acquisitions, MUST is also close to meeting the criteria (free float and liquidity) of inclusion into the NAREIT Index. A potential near-term (one year) inclusion will be a positive re-rating catalyst, as it will further increase liquidity and widen the investor base.
- **We revise FY19-21F DPU 1-2%** by raising our rent assumptions. We also cut COE assumptions by 10bps by lowering the risk-free rate 50bps to 3% –to better reflect the current prolonged low interest rate environment.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	2.3	2.3	8.6	2.9
Relative	4.9	(2.3)	1.5	3.7	(0.4)
52-wk Price low/high (SGD)					0.70 - 0.90



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	92.0	144.6	174.4	185.3	188.7
Net property income (USDm)	58.4	90.7	110.5	117.9	120.1
Reported net profit (USDm)	58.0	64.5	89.9	96.3	97.7
Distributable income (USDm)	46.7	71.0	80.7	87.2	88.5
DPS (USD - cents)	5.8	5.6	6.0	6.2	6.2
DPS growth (%)	-	(3.6)	7.7	3.2	0.8
P/BV (x)	1.1	1.1	1.1	1.0	1.0
Dividend Yield (%)	6.6	6.3	6.8	7.0	7.1
Return on average equity (%)	6.8	6.1	7.7	8.1	8.1
Return on average assets (%)	4.2	3.6	4.6	4.9	4.9
Interest coverage (x)	7.1	4.4	4.8	4.9	4.9

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Property
Manulife US REIT
Bloomberg MUST SP

Valuation basis

We use DDM:
i. COE of 8.2%;
ii. Risk-free rate of 3.0%;
iii. 2% terminal growth.

Key drivers

i. Continued momentum in office demand;
ii. Rollback of tax structure and inclusion into the NAREIT index;
iii. Yield-accretive acquisitions.

Key risks

i. Failure of co-working model impacting demand;
ii. Adverse changes in tax structure;
iii. Inability to retain key tenants.

Company Profile

MUST is a SREIT established with the investment strategy to principally invest – directly or indirectly – in a portfolio of income-producing office real estate in key markets in the US, as well as real estate-related assets.

Financial summary	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring EPS (USD)	0.07	0.05	0.07	0.07	0.07
EPS (USD)	0.07	0.05	0.07	0.07	0.07
DPS (USD)	0.06	0.06	0.06	0.06	0.06
BVPS (USD)	0.82	0.83	0.84	0.84	0.85
Weighted avg adjusted shares (m)	835	1,276	1,348	1,410	1,421

Valuation metrics	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring P/E (x)	12.7	17.4	13.2	12.9	12.8
P/E (x)	12.7	17.4	13.2	12.9	12.8
P/B (x)	1.1	1.1	1.1	1.0	1.0
FCF Yield (%)	4.7	4.6	5.6	5.8	5.9
Dividend Yield (%)	6.6	6.3	6.8	7.0	7.1
EV/EBITDA (x)	26.6	19.6	16.3	15.4	15.2
EV/EBIT (x)	26.6	19.6	16.3	15.4	15.2

Income statement (USDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total turnover	92	145	174	185	189
Gross profit	58	91	111	118	120
EBITDA	0	0	0	0	0
Depreciation and amortisation	0	0	1	2	3
Operating profit	0	0	0	0	0
Net interest	(9)	(19)	(23)	(24)	(25)
Income from associates & JVs	0	0	0	0	0
Exceptional income - net	0	0	0	0	0
Pre-tax profit	74	79	94	101	102
Taxation	(16)	(15)	(4)	(5)	(5)
Minority interests	0	0	1	2	3
Recurring net profit (adj)	58	65	90	96	98

Cash flow (USDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Change in working capital	(2)	(8)	(8)	(8)	(8)
Cash flow from operations	44	63	75	81	83
Capex	(9)	(11)	(9)	(9)	(10)
Cash flow from investing activities	(434)	(399)	(131)	(9)	(9)
Dividends paid	(42)	(59)	(81)	(87)	(89)
Cash flow from financing activities	402	341	60	(69)	(70)
Cash at beginning of period	38	50	54	58	61
Net change in cash	11	4	4	3	3
Ending balance cash	50	54	58	61	65

Balance sheet (USDm)	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total cash and equivalents	50	54	58	61	65
Tangible fixed assets	1313	1739	1887	1915	1944
Intangible assets	0	0	0	0	0
Total investments	1313	1739	1887	1915	1944
Total other assets	7	10	5	5	5
Total assets	1369	1803	1950	1982	2014
Short-term debt	0	110	110	110	110
Total long-term debt	458	557	592	602	612
Other liabilities	59	72	75	78	82
Total liabilities	517	739	777	790	804
Shareholders' equity	852	1064	1173	1191	1210
Minority interests	0	0	0	0	0
Total equity	852	1064	1173	1191	1210
Net debt	409	613	644	651	658
Total liabilities & equity	1369	1803	1950	1982	2014

Key metrics	**Dec-17**	**Dec 18**	**Dec 19F**	**Dec 20F**	**Dec 21F**
Revenue growth (%)	94	57	21	6	2
Recurrent EPS growth (%)	(16)	(27)	32	2	1
Gross margin (%)	63	63	63	64	64
Operating EBITDA margin (%)	56	56	57	57	57
Net profit margin (%)	63	45	52	52	52
Dividend payout ratio (%)	100	100	100	100	100
Capex/sales (%)	10	14	6	5	5
Interest cover (x)	5	4	4	4	4

Source: Company data, RHB

Figure 10: DDM valuation

	FY19F	FY20F	FY21F	FY22F	Terminal Value
DPU (USD cents)	5.99	6.18	6.23	6.44	106.19
Target price (USD)	0.98				
Current Price (USD)	0.88				
Price Upside (%)	11.3%				
Distribution Yield FY19F (%)	6.8%				
Assumptions					
Risk-free rate (%)	3.0%				
Beta	0.9				
Cost of equity (%)	8.2%				
Terminal growth (%)	2.0%				

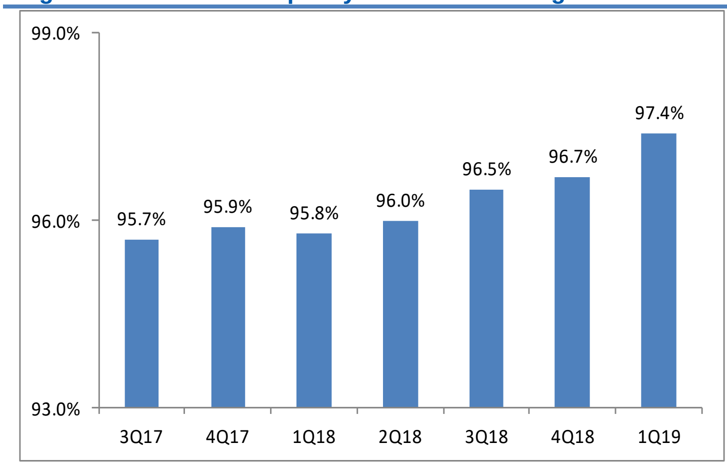
Source: Company data, RHB

Figure 2: Properties in MUST's portfolio

Attributes	Figueroa	Michelson	Peachtree	Plaza	Exchange	Penn	Phipps*	Centerpointe
Location	Los Angeles	Irvine	Atlanta	Secaucus	Jersey City	Washington, D.C.	Atlanta	Fairfax
Property Type	Class	Trophy	Class A	Class A	Class A	Class A	Trophy	Class A
Completion Date	1991	2007	1991	1985	1988	1964	2010	1989
Last Refurbishment	2015	-	2015	2016	-	2018	-	2018
Property Value (USD m)	329.3	345	203.7	119.8	340.7	189	211.2	122.1
Occupancy(%)	93.3	96	99.4	98.9	97.7	99.1	100	98.7
NLA (sq ft)	702,861	532,933	557,560	461,525	736,383	277,597	475,199	419,981
WALE (Years by NLA)	4.4	5.2	5.4	7.2	6	5.6	8.9	6.9
Land Tenure	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold	Freehold2	Freehold
No. of Tenants	28	14	25	7	23	10	10	21

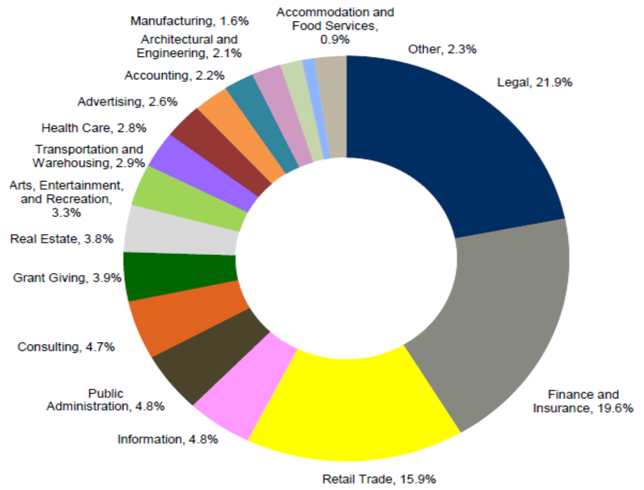
*Note: *The property is held in a leasehold until end-2020 to afford certain real estate tax advantages, but will be converted to a freehold for a nominal sum of USD100 thereafter*
Source: Company data

Figure 3: Portfolio occupancy rates since listing



Source: Company data

Figure 4: Trade sector breakdown as of 1Q19



Source: Company data

12 July 2019

Property | REITS

Keppel-KBS US REIT (KORE SP)

Buy

Right Place, Right Time; Initiate With BUY

Target Price (Return)	USD0.88 (+12%)
Price:	USD0.785
Market Cap:	USD641m
Avg Daily Turnover (SGD/USD)	1.0m/0.7m

- **Initiate coverage with BUY and USD0.88 TP, 12% upside with 7.8% FY19F yield.** Keppel-KBS US REIT's portfolio of 13 freehold US office assets – with properties located across key growth markets – offers investors a good proxy to the rising US office sector. Despite a strong YTD share price performance (+29%), we believe KORE's price is undervalued, given yields of c.8% – a >250bps spread to Singapore office REITs.
- **Portfolio geared to booming technology markets.** Around three quarters of its assets are located in key growth markets: Seattle (53%), Austin, Atlanta, and Orlando. These markets have strongly outperformed the US market on a 5-year average in terms of key office metrics, such as GDP, population, and employment growth. This has immensely benefitted KORE, with healthy improvements seen in occupancy and rent in recent years. We see more room for growth, with Costar projecting office rent to grow 3-7% in 2019.
- **Under-rented portfolio with room for occupancy improvement.** KORE's average rent of leases expiring in 2019-2021 are in the USD22-22.50 range, c.15% below the weighted average asking rents of USD26psf. With ~36% of portfolio leases by cash rental income (CRI) expiring by 2021, we see good rental growth potential. Additionally, the leases have inbuilt rent escalations of ~3% pa. With continued office demand momentum and limited supply growth in its sub-markets, we also see room for occupancy to increase 2-3ppts from current 92% levels.
- **While demand for high-quality Class-A office assets remain strong,** we noticed there was good preference for KORE's Class-A & B campus-style assets, especially from technology tenants, as they provide a more independent work environment. The assets are reasonably well-located, with amenities and residential neighbourhoods nearby. As such, KORE's assets should continue to see demand even if market conditions worsen.
- **Well-diversified tenant base with low concentration risk.** The REITs top 10 tenants account for only 19.8% of total CRI. No tenant accounts for >3% of CRI – providing good diversification. While a WALE of 3.9 years is slightly on the lower side vis-à-vis its closest peers, we believe – in the current market conditions – this works in the landlord's favour in adjusting rent upwards.
- **Expect more bite-sized acquisitions ahead.** With current gearing at 38%, there is limited debt headroom of USD80m, assuming a 40% level. We expect more bite-sized acquisitions (USD50-150m) in the near term, with large acquisitions likely to be funded by a combination of debt and equity.
- **Key risks:** Failure of the co-working model resulting in a collapse in office demand, tax structure changes, and an unexpected economic slowdown.

Forecasts and Valuation	Dec-18*	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	106	120	125	128
Net property income (USDm)	64	74	76	78
Reported net profit (USDm)	53	55	57	59
Distributable income (USDm)	44	50	52	54
DPS (USD - cents)	6.2	6.1	6.3	6.5
DPS growth (%)	-	(1.8)	3.8	2.7
P/BV (x)	1.0	1.0	1.0	0.9
Dividend Yield (%)	7.9	7.8	8.1	8.3
Return on average equity (%)	9.6	10.1	10.3	10.4
Return on average assets (%)	5.9	5.9	6.0	6.0
Interest coverage (x)	4.3	3.5	3.5	3.5
Total Debt to assets (%)	34	38	38	38

*Source: Company data, RHB; Note: *Since listing in Nov 2017 to Dec 2018*

Analyst

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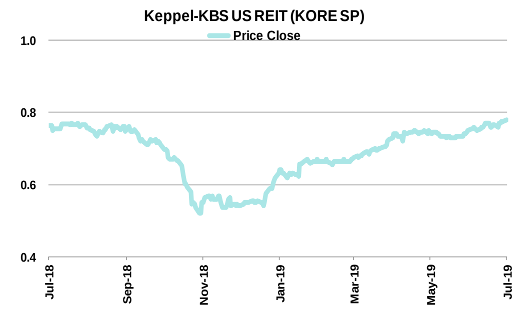
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.7	4.0	6.1	19.8	(3.4)
Relative	19.8	(0.1)	5.8	15.4	(6.2)
52-wk Price low/high (USD)					0.53 - 0.80



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Property
Keppel KBS US REIT
Bloomberg KORE SP

Valuation basis

We use DDM with the following assumptions:
iv. COE of 9.2%;
v. Risk-free rate of 3.0%;
vi. 2% terminal growth.

Key drivers

iv. Continued strong momentum in office demand;
v. Accretive acquisitions; and
vi. Benign interest rate environment.

Key risks

iv. Unexpected slowdown in the US economy on the back of a prolonged trade war ;
v. Negative changes to tax-efficient structure, and
vi. Failure of co-working operator model

Company Profile

Keppel-KBS US REIT's investment strategy is to principally invest in a diversified portfolio of income-producing commercial assets and real estate-related assets in key growth markets of the US, with favourable economic and office fundamentals that are above the national average, so as to provide sustainable distributions and strong total returns for unit holders.

Financial summary	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring EPS (USD)	0.06	0.07	0.07	0.07
EPS (USD)	0.06	0.07	0.07	0.07
DPS (USD)	0.06	0.06	0.06	0.07
BVPS (USD)	0.80	0.81	0.83	0.84
Weighted avg adjusted shares (m)	821.73	821.73	821.73	821.73

Valuation metrics	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Recurring P/E (x)	12.2	11.6	11.2	11.0
P/E (x)	12.2	11.6	11.2	11.0
P/B (x)	1.0	1.0	1.0	0.9
FCF Yield (%)	4.9	8.6	11.9	12.2
Dividend Yield (%)	7.9	7.8	8.1	8.3
EV/EBITDA (x)	19.8	20.6	20.1	19.8
EV/EBIT (x)	19.8	20.6	20.1	19.8

Income statement (USDm)	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total turnover	106	120	125	128
Gross profit	64	74	76	78
EBITDA	51	53	55	56
Depreciation and amortisation	0	0	0	0
Operating profit	51	53	55	56
Net interest	(12)	(15)	(15)	(16)
Income from associates & JVs	0	0	0	0
Exceptional income - net	0	0	0	0
Pre-tax profit	63	68	70	72
Taxation	(10)	(12)	(13)	(13)
Minority interests	0	0	0	0
Recurring net profit (adj)	53	55	57	59

Cash flow (USDm)	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Change in working capital	2	5	6	6
Cash flow from operations	63	68	70	72
Capex	(29)	(25)	(5)	(5)
Cash flow from investing activities	(980)	(70)	(5)	(5)
Dividends paid	(24)	(50)	(52)	(54)
Cash flow from financing activities	960	(15)	(81)	(78)
Cash at beginning of period	0	41	36	32
Net change in cash	41	(5)	(4)	1
Ending balance cash	41	36	32	33

Balance sheet (USDm)	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Total cash and equivalents	41	36	32	33
Tangible fixed assets	1017	1103	1125	1148
Intangible assets	0	0	0	0
Total investments	1017	1103	1125	1148
Total other assets	10	9	9	9
Total assets	1067	1148	1167	1190
Short-term debt	5	0	0	0
Total long-term debt	367	433	440	451
Other liabilities	38	47	48	50
Total liabilities	409	480	488	501
Shareholders' equity	658	668	679	689
Minority interests	0	0	0	0
Total equity	658	668	679	689
Net debt	331	397	407	418
Total liabilities & equity	1067	1148	1167	1190

Key metrics	**Dec 18***	**Dec 19F**	**Dec 20F**	**Dec 21F**
Revenue growth (%)	0.0	32.7	3.6	2.8
Recurrent EPS growth (%)	4.6	3.5	2.5	1.6
Gross margin (%)	60.8	61.1	61.2	61.2
Operating EBITDA margin (%)	48.3	43.8	43.9	43.7
Net profit margin (%)	50.1	46.1	46.0	45.9
Dividend payout ratio (%)	100.0	100.0	100.0	100.0
Capex/sales (%)	27.7	20.8	4.0	3.9
Interest cover (x)	4.3	3.5	3.5	3.5

**Since listing in Nov 2017 to Dec 2018;*
Source: Company data, RHB

Investment Highlights

Assets mainly geared towards high-growth markets of Seattle, Austin and Orlando. KORE's portfolio comprises 13 well-diversified freehold assets located across seven key markets in US. The portfolio has a total NLA of ~4.3m sqf, and is currently valued at USD1.07bn. Seattle, one of the fastest-growing office markets in the US in terms of rental growth and demand, accounts for the bulk (>50% of its asset value) – The Plaza Buildings (24%) being the largest in its portfolio offering strong growth opportunities for investors.

Austin (8%), Orlando (9%), and Atlanta (4%) – which have been the upcoming growth markets – are home to c.21% of its assets. While there has been some weakness in the remaining markets, especially in Houston (11%), due to the fallout of the oil & gas sector, strong job growth in other industries have lessened this impact in recent years.

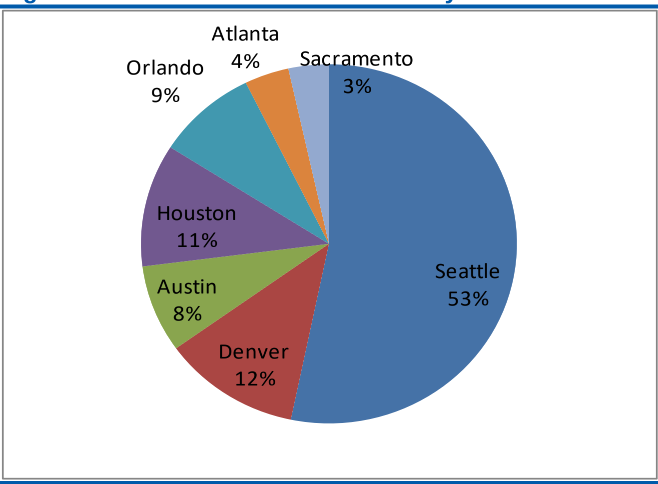
The assets are mainly located in first-choice sub-markets in the above cities. In terms of market positioning, eight of its 13 assets are Class A properties with the remaining five classified under Class B. From our site visits to some of the KORE's assets recently, we found that they are more campus-style offices with good connectivity and surrounding amenities, which is popular especially among the fast-growing technology and professional services sectors.

- Three quarters of properties by value are located in key growth markets of Seattle, Austin and Orlando – which have benefited from the growth of technology companies, as well as a young and highly-educated working population

Figure 11: Portfolio asset overview

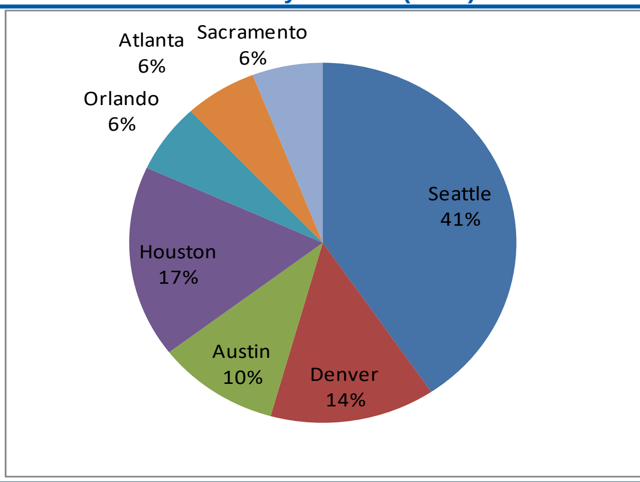
Source: Company data

Figure 12: Portfolio value breakdown by market



Source: Company data, RHB

Figure 13: NPI breakdown by markets (FY18)



Source: Company data, RHB

Positive rental growth outlook in the office sub-markets. Underpinned by strong GDP data aiding job growth, US office demand has remained robust, and is expected to see a steady increase in the coming years. This, coupled with modest supply growth, has resulted in office rents climbing upwards over the last few years. The positive data is reflected in KORE's assets registering a mid-single digit positive rent reversion in 2018, and for 1Q19, the rent reversion came in strongly at 10%.

Overall, KORE's sub-market performance (except Houston) in terms of key office demand indicators such as GDP growth, employment and population, has outperformed the national average over the last five years on favourable local government policies and the availability of a talent pool – and the trend is expected to continue. This has translated into a rent growth of up to 9% last year. For 2019, CoStar expects a 1-7% rent growth, with its key sub-market, Seattle, projected to see the biggest rental growth.

- KORE's property sub-market has outperformed the US national average in GDP, employment and population growth over last five years.
- Positive rental growth outlook in all US sub markets

Figure 14: Properties sub-market rental growth outlook

Submarket *Property*	Submarket Vacancy Rate (%)	Last 12M Deliveries (sf'000)	Last 12M absorption (sf'000)	Average Submarket Rent (US$ p.a.)	Last 12M Rental Growth (%)	Projected Rental Growth (%)
Seattle, Bellevue CBD *The Plaza Buildings*	5.1%	-	210.0	50.1	8.7%	7.4%
Seattle, Eastside *Bellevue Technology Center*	4.0%	-	88.3	34.1	5.2%	4.6%
Seattle, Redmond *Westpark Portfolio*	4.8%	10.0	(121.0)	32.5	6.3%	6.3%
Sacramento, Folsom *Iron Point*	6.3%	-	1.7	25.6	5.1%	4.6%
Denver, Northwest *Westmoor Center*	9.6%	125.0	64.1	21.3	2.7%	2.5%
Austin, Northwest *Great Hills & Westech 360*	9.8%	17.6	(303.0)	35.3	4.6%	3.9%
Houston, Galleria/Uptown *1800 West Loop*	15.4%	-	248.0	31.9	0.0%	1.3%
Houston, Galleria/Bellaire *West Loop I & II*	15.2%	-	(41.3)	25.1	1.4%	1.9%
Atlanta, Cumberland/I-75 *Powers Ferry*	15.2%	215.0	202.0	24.5	3.5%	3.4%
Atlanta, Central Perimeter *Northridge I & II*	13.9%	218.0	192.0	28.4	3.6%	4.7%
Orlando, Maitland *Maitland Promenade I & II*	10.0%	-	(155.0)	22.5	3.1%	3.1%

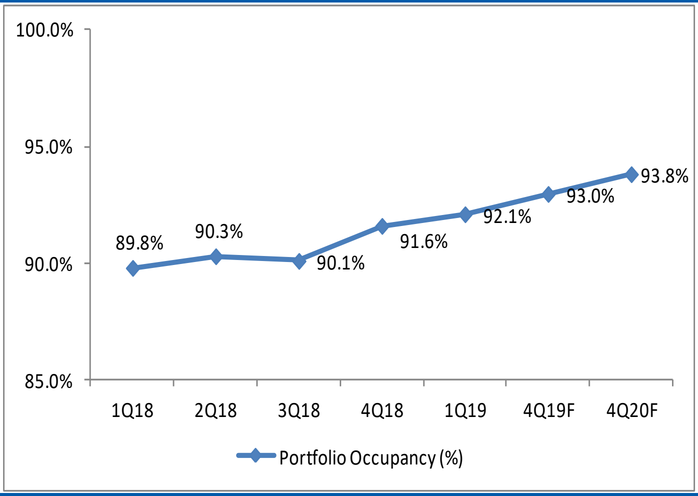
Source: Costar Office report as at 3 Apr 2019

Portfolio occupancy on the uptrend with room for growth. The strong positive office momentum is also reflected in portfolio occupancy growth, which has increased from 90% at listing (Nov 2017) to 92.1% as of 1Q19, exceeding IPO forecast targets. The strong leasing momentum is clearly visible with KORE signing leases for ~203,000 sqf in 1Q19 (or ~5% of portfolio).

With the booming technology sector and co-working space pushing up office demand across the markets, we see room for occupancy growth – especially in markets like Seattle, Austin and Denver in the near term. Overall, we are forecasting portfolio occupancy to increase to 93% and 93.8% by end-2019 and 2020 respectively.

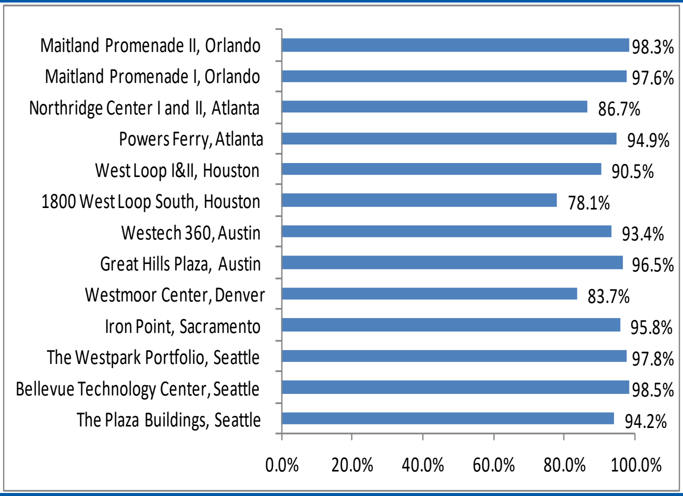
- Room for portfolio occupancy to increase by 1-2ppt, fuelled by strong technology sector-driven demand in core markets

Figure 15: Portfolio occupancy trend (%)



Source: Company data, RHB

Figure 16: Occupancy by property



Source: Company data, RHB

In-built rent escalation of 3% provides organic DPU growth. A key highlight of the US' office rental structure is that most of the office leases have inbuilt annual rent escalation clauses attached – unlike Singapore office leases, which are typically signed on fixed terms during the lease period, with the exception of certain long-term leases. Note that the positive rental reversions are on top of the annual rent escalations. This inbuilt rent escalation clause provides good organic growth visibility to unitholders in the current low-inflation environment.

Expect more bite-sized acquisitions to drive inorganic growth. Since listing in Nov 2017, KORE has acquired two properties – The Westpark Portfolio, Seattle in 4Q18 and, more recently, Maitland Promenade I in Orlando – thereby deepening its presence in its core growth markets. However, the funding of the former acquisition by a deeply-discounted rights issue was not well-liked by the market – with its share price falling by more than 30% since the acquisition was announced. This, in our view, was mainly due to a combination of bad market timing, and investors' negative perception towards the rights issuance as it came within a year of KORE's listing. However, in the REIT's recent results, it was proven that the acquisition was a positive one, with a strong operating performance from acquired assets. This led to the sharp recovery in share price.

- Recent share price collapse triggered by timing of rights issue but price has since rallied on the back of good operating performance
- Expect more bite-sized acquisitions of assets in key secondary growth markets

Moving ahead, we expect more bite-sized acquisitions in the range of USD50-150m, with key targets likely being growth markets of Austin, Dallas, Raleigh, Durham and Phoenix etc, where its sponsor has some presence. While Seattle is one of the preferred markets, management noted that the strong office space growth has led to yield compression. With a debt headroom of ~USD 80m (considering 40% gearing levels), we do not rule out the possibility of potential fund-raising in the future for acquisitions, but understand that yield and NAV accretion will be one of the key criteria for management in acquisition consideration.

Figure 17: The Westpark Portfolio – acquired in Nov 2018

Source: Company

Figure 18: Maitland Promenade I – acquired in Jan 2019

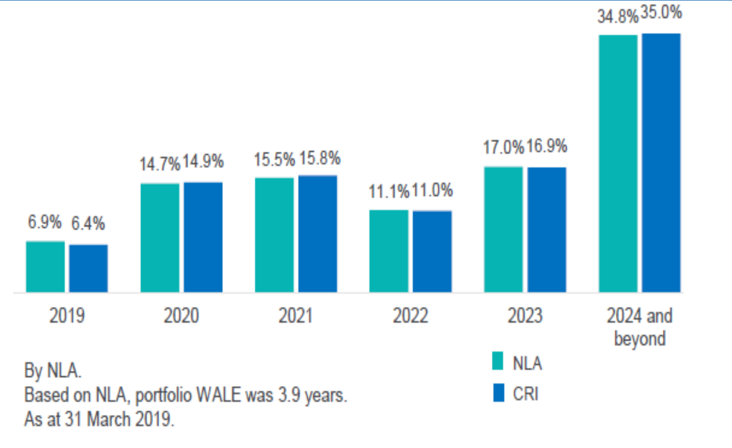
Source: Company

WALE of 3.9 years provides room for rental uplift. As at 1Q19, KORE's portfolio WALE stood at 3.9 years by CRI, with no more than 17% of its leases expiring in any one year over the next five years. While KORE's WALE is lower compared to peer Manulife US REIT (MUST SP, BUY TP: USD0.98) (six years) we believe, in the current rising office market, this is beneficial to the landlord.

The bulk of the lease expiries for next two years are in the key markets of Seattle and Austin, providing room for strong rental uplift. Based on our discussions with management, we understand that the current passing rents are ~15% discount asking rents – so we see good scope for high single-digit positive rent reversions in 2019-2020.

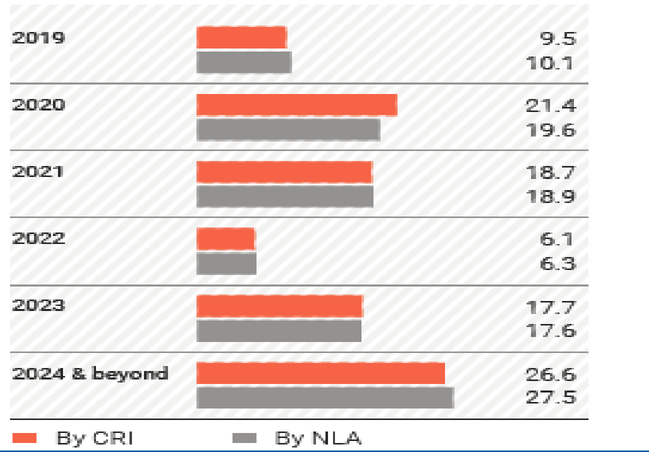
- Room for rent growth with ~21% of leases expiring by 2020
- KORE's portfolio passing rents are ~15% lower than current asking rents

Figure 19: Well-spread lease expiry profile



Source: Company data

Figure 20: Lease expiry of key asset - Plaza Buildings

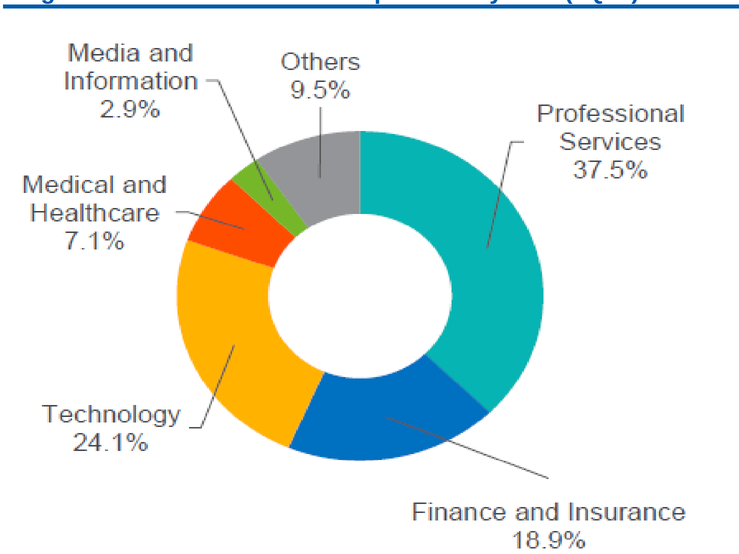


Source: Company data

A well-diversified tenant base with minimal concentration risks. Key trade sectors of KORE's portfolio are professional services (37.5% of total NLA), technology (24.1%) and finance and insurance (18.9%), which have been among the key job creation engines in the current market. In terms of tenant profile, its portfolio is very well diversified with no tenant accounting for more than 3% of CRI and top 10 tenants accounting for <20% of total CRI. However, a downside to the above is that the management team has to carefully manage and address the needs of a huge number of tenants (422) across its portfolio, which can be challenging especially when the market enters a downturn.

- No concentration risk with no tenant accounting for >3% of CRI
- Its huge tenant base, however, increases the need for management engagement efforts

Figure 11: Portfolio tenant composition by NLA (1Q19)



Source: Company data

Figure 12: Top 10 tenants by CRI – 1Q19

Tenant	Sector	Asset	% CRI
Ball Aerospace	Professional Services	Westmoor Ctr	2.9%
Oculus VR, LLC	Technology	Westpark Portfolio	2.4%
Zimmer Biomet Spine	Technology	Westmoor Ctr	2.3%
Spectrum	Media & Information	Maitland Promenade I	2.1%
Unigard Insurance(1)	Finance & Insurance	Bellevue Technology Ctr	1.9%
US Bank	Finance & Insurance	The Plaza Buildings	1.9%
Blucora	Technology	The Plaza Buildings	1.8%
Health Care Service	Finance & Insurance	1800 West Loop South	1.5%
Reed Group	Finance & Insurance	Westmoor Ctr	1.5%
Futurewei	Technology	The Plaza Buildings	1.5%
Total			**19.8%**
WALE (by NLA)			**5.4 years**
WALE (by CRI)			**5.2 years**

Source: Company data

Potential asset enhancement opportunities in the medium term. The REIT manager is currently undertaking asset enhancements in West Loop I & II, Westech 360, 1800 West Loop South, Iron Point and Northridge Center, which include upgrades to lobbies, corridors, adding more facilities (eg gym), elevator interior, and restrooms. It expects a capex requirement of USD25m for 2019 (as disclosed in prospectus). The renovation, to be done in phases, will not impact existing tenants, and is expected to contribute positively in boosting occupancy and rent.

- Medium-term asset enhancement opportunities in The Plaza Buildings, BTC and MP.

In the medium-term (3-5 years), management also sees good asset enhancement potential from the redevelopment of car park space in The Plaza Buildings, tapping the underutilised GFA in Bellevue Technology Center (BTC), in addition to retail spaces in Maitland Promenade (MP).

Fee structure aligned with unitholders' DPU growth. The base fees (10% of distributable income) and performance fees (25% of DPU growth) are well-aligned to deliver stable DPU returns, and generate better shareholder value. In comparison, the majority of office S-REITs' base and performance fees are pegged as a proportion of portfolio value and NPI.

- Management fee structure is based on DPU income growth
- Lower property management fees

Property management fees – 1.5-3% of gross revenue – are on the lower side compared to the majority of office REIT peers. The acquisition fee rate is set at 1%, but can be adjusted lower (at the manager's discretion) for acquisition from the sponsor.

Figure 13: A comparison of office REIT fee structures

	Property management fees	REIT management fees		Trustee fees	Acquisition fee	Divestment fees
		Base	Performance	% of property value	% of purchase price	% of sale price
Keppel-KBS US REIT	**1.5% - 3.0% of gross revenue**	**10.0% of distributable income**	**25.0% YoY DPU difference * weighted avg no. of units**	**0.015% subject to minimum of SGD 14,000 p.a**	**1.0% or lower**	**0.50%**
Manulife US REIT	2.5% of gross income >300k sq ft of NLA and 3.0% for gross income with <300k sq ft of NLA	10.0% of distributable income	25.0% YoY DPU difference * weighted avg no. of units	0.100%	0.75% for related parties, 1.0% for all others	0.50%
CapitaLand Commercial Trust	3.0% p.a. of NPI	0.10% p.a. of portfolio value	5.25% p.a. of NPI	0.100%	1.0%	0.50%
Frasers Commercial Trust	3.0% of gross revenue	0.50% of portfolio value	3.5% of NPI	0.030%	1.0%	0.50%
Keppel REIT	3.0% of gross revenue	0.50% of portfolio value	3.0% of NPI	0.030%	1.000%	0.50%
OUE Commercial REIT	2.0% of gross rev + 2.0% of NPI + 0.5% of NPI for lease mgmt fee	0.30% p.a. of portfolio value	25.0% YoY DPU difference * weighted avg no of units	0.02%	0.75% for related parties, 1.0% for all others	0.50%
Suntec REIT	3.0% of gross rev	0.30% p.a. of portfolio value	4.5% of NPI	0.25%	1.00%	0.50%

Source: Company data, RHB

"Widely held" rule limits sponsor ownership. One of the concerns often expressed by some of the local retail and institutional investors is the lack of sizeable sponsor ownership to demonstrate commitment in the REIT. However, we note that this is due to the limitations set by the US authorities to qualify as a REIT entity.

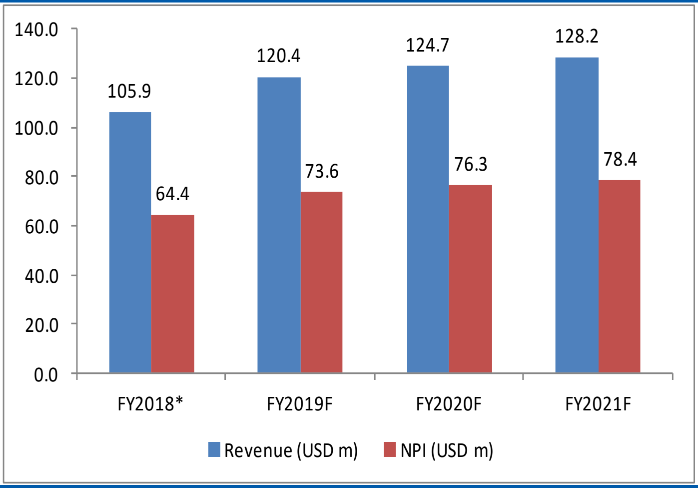
- Low sponsors stake due to the limitations from the "widely held rule"

In order to qualify as a US REIT, under the "widely held" rule, the trust deed prohibits any unit holder or other person from directly or indirectly owning more than 9.8% of the outstanding units (including the sponsor). The trust deed has steps in place that will result in the automatic forfeiture of units held in excess of 9.8%, and the units will be held by a trustee.

Financials

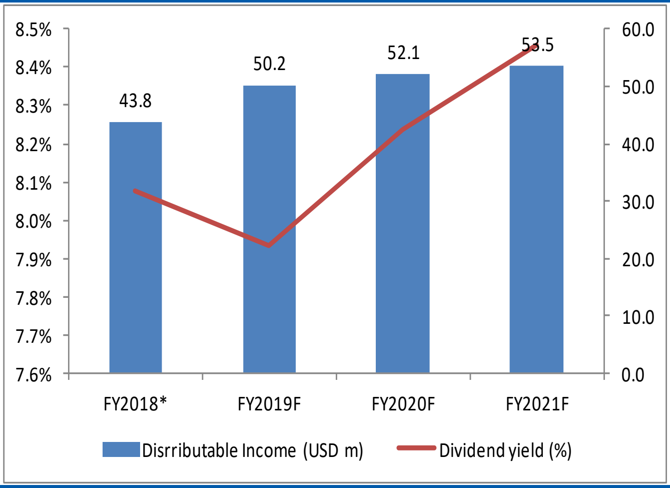
Forecasting a 3-year CAGR distributable income growth of 7% pa. KORE's revenue (3-year CAGR) and NPI are expected to grow at 7% pa, driven by occupancy improvements mainly from its Austin, Seattle and Houston assets. With the current portfolio (average) rent of leases expiring for next three years at ~15% – below the asking rents – we expect positive rental reversions to continue in the next three years. We have conservatively assumed a modest rent reversion of ~3%, factoring in geopolitical risks. Our forecasts assume a 100% payout ratio, and currently do not factor in any uplift from potential asset enhancements.

Figure 14: Revenue and NPI forecasts



Note: *FY18 data is from listing date of 9 Nov 2017 to 31 Dec 2018
Source: RHB

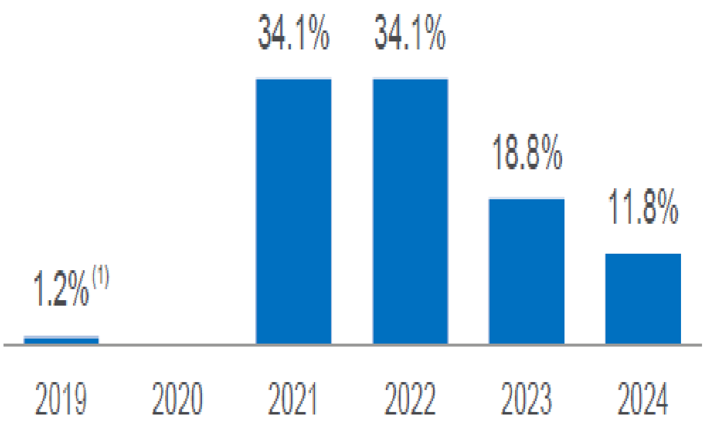
Figure 15: Distributable income and DPU growth



Note: *FY18 data is from listing date of 9 Nov 2017 to 31 Dec 2018
Source: RHB

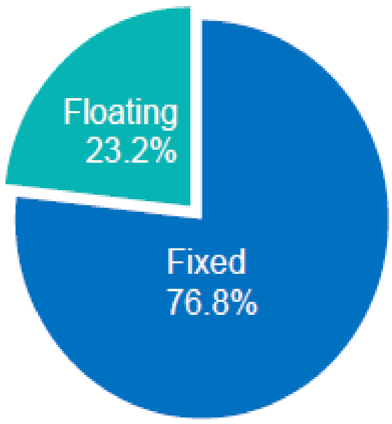
Minimal debt maturity until 2021, bulk of debt in fixed terms. KORE's average cost of debt currently stands at 3.76% pa, with 77% of debt currently in fixed term. Based on its internal sensitivity analysis, every +/- 50 bps change in the London Inter-Bank Offered Rate (LIBOR) will have a minimal +/- 1% impact on DPU. The average term to maturity of debt also remains comfortable at 3.6 years, with no debt maturing until Nov 2021 and 100% of its debt remains unsecured. In our model, we have assumed a slight (5bps) increase in total debt costs over next two years, imputing the potential higher funding costs for its capex requirements.

Figure 16: Debt maturity profile



Source: Company data

Figure 17: Debt breakdown



Source: Company data

Gearing at 38%; potential debt headroom of USD80m. With the latest acquisition of Maitland Promenade I (Jan 2019), which was fully funded by debt, KORE's gearing now stands at 38.1% (from 35.1% as at end-2018). Management noted that it will aim to maintain its gearing below the 40% level (maximum allowable limit is 45%), which leaves a debt headroom of ~USD80m for acquisitions. Thus, we expect more bite-sized acquisitions in the near term, with large acquisitions funded by a combination of debt and equity.

FY19 capex requirement of ~USD25m, minimal maintenance capex after that. The bulk of the capex requirements for this year will be used for leasing incentives and upgrades of lobbies, corridors, elevator interiors and restrooms at Westmoor Center, 1800 West Loop South, and The Plaza Buildings. With major capex works likely to be done by end-2019, management expects a maintenance capex of ~ USD 4-5m pa after that.

Taxes to slightly increase in FY19, but good potential for tax reductions from FY20. The increase in Barbados entity tax rates (beginning FY19) will increase the effective tax rate paid by REIT for FY19 to ~2% (from around 1.2% currently). However, note that KORE is likely to revert to its IPO upon finalisation of proposed tax regulations (Dec 2018) which will effectively cut tax rates to almost 0%. The regulations, currently at the draft stage, are likely to be finalised soon. This presents a potential ~2% uplift to our DPU assumptions.

Zero tax for dividends for all unitholders. A key advantage of KORE, compared to S-REITs with Singapore assets only, is that the dividends are tax-exempted for all types of unitholders. In case of S-REITs with Singapore assets, local institutional investors incur a 17% corporate tax while foreign institutions are subject to a 10% corporate tax. This is because foreign-sourced income by REITs are not subject to tax under Singapore regulations – resulting in a substantial tax savings for institutional investors.

Payment of fees in units. Our DPU forecast assumes 100% of management fees to be paid in units.

Semi-annual distributions. KORE declares and distributes dividends to unitholders on a semi-annual basis. Unitholders can elect to receive the distribution in USD or SGD terms. For distribution in SGD, the dividends will be converted at the spot exchange rates.

Valuation

A high-yield proxy on the US office sector, initiate coverage with BUY and TP of USD0.88, 12% upside with 7.8% yield. Our DDM-based (5-year) TP is based on a CoE of 9.2% (risk-free rate: 3.0%, terminal growth (TG): 2%). We believe our higher COE assumption (100bps higher) compared to its closest peer, MUST, sufficiently takes into account the risks associated with KORE's secondary market location, and asset quality. Our model assumes a 100% payout ratio, and management fees being fully paid in units in our forecasts.

Sensitivity analysis. Based on our sensitivity analysis to CoE/TG, we note that every 50bps change in CoE/TG has a +/- c.7% and 5% impact on our TP. Similarly, a +/-1% change in portfolio occupancy assumption will impact our FY19-21F DPU estimates by +/-1.5%.

High yield gap to S-REITs unjustified. Our TP corresponds to 1.1x FY2019F P/BV. The implied yield at our TP is 7%, which is still more than a 150bps premium to S-REITs, 200bps higher than office S-REITs and more than 500bps higher than US 10-year Treasuries. US-listed peers (Figure 22) are currently trading at an average forward dividend yield of just 3.8%.

With the recent tax clarifications (ie no changes to its tax efficient structure), We believe the high yield gap looks unjustified, and expect more yield compression ahead. It is also important to note that the US office assets are freehold in nature, and have in-built rental escalation clauses, which enhances their appeal compared to a typical 99-year lease for Singapore commercial assets.

Figure 18: DDM valuation

	FY19F	FY20F	FY21F	FY22F	FY23F	Terminal Value
DPU (US cents)	6.1	6.3	6.5	6.7	6.9	97.2
Target price (USD)	**0.88**					
Current Price (USD)	0.79					
Price Upside (%)	11.5%					
Distribution Yield FY18F (%)	7.8%					
Assumptions						
Risk-free rate (%)	3.0					
Beta	0.9					
Cost of equity (%)	9.2					
Terminal growth (%)	2.0					

Source: RHB

Figure 19: TP sensitivity analysis for COE and terminal growth assumptions

COE/TG	8.2%	8.7%	9.2%	9.7%	10.2%
0.5%	0.86	0.81	0.76	0.72	0.68
1.0%	0.91	0.85	0.80	0.75	0.71
1.5%	0.96	0.89	0.84	0.78	0.74
2.0%	1.02	0.95	0.88	0.82	0.77
2.5%	1.09	1.00	0.93	0.86	0.81
3.0%	1.18	1.07	0.99	0.91	0.85

Source: RHB

Figure 20: DPU sensitivity to occupancy changes

Occupancy Change	-2%	-1%	0%	1%	2%
FY2019	5.9	6.0	6.1	6.2	6.3
FY2020	6.1	6.2	6.3	6.4	6.6
FY2021	6.2	6.4	6.5	6.7	6.8

Source: RHB

Figure 21: Peer comparison – Singapore office REITs vs US office REITs

																			Lease Expiry	
	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	Gearing/ simple ave	WALE (years)	% FY-1	% FY-2
S-REITs	**76,857**	**169,849**		**0.1**	**(0.6)**	**3.6**	**6.3**	**13.9**	**15.2**	**18.4**	**24.5**	**(4.0)**	**1.2**	**5.3**	**5.4**	**3.3**	**34.7%**			
Keppel-KBS US REIT	**645**	**633**	**0.79**	**0.6**	**1.9**	**4.0**	**6.1**	**19.8**	**(3.4)**	**28.7**	**48.1**	**(5.6)**	**0.98**	**7.9**	**8.2**	**5.9**	**35.1%**	**4.0**	**12%**	**16%**
Manulife US REIT	1,230	1,206	0.88	(0.6)	0.0	2.3	2.3	8.6	2.9	14.3	26.6	(1.7)	1.08	6.8	6.8	4.8	37.2%	5.8	10%	8%
US Office S-REITs	**938**	**920**		**0.0**	**1.0**	**3.1**	**4.2**	**14.2**	**(0.2)**	**21.5**	**37.4**	**(3.6)**	**1.0**	**7.4**	**7.5**	**5.3**	**36.2%**	**4.9**	**11%**	**12.0%**
CapitaLand Commercial Trust	6,050	21,057	2.19	0.5	(1.8)	7.4	10.6	20.3	25.9	25.1	32.7	(5.2)	1.21	4.1	4.1	2.1	34.9%	5.8	18%	26%
Suntec REIT	4,036	15,273	1.96	0.5	(0.5)	3.7	0.5	5.4	7.1	10.1	14.0	(2.5)	0.94	5.1	5.1	3.1	38.1%	3.8	8%	18%
Keppel REIT	3,158	5,425	1.26	(0.8)	(1.6)	1.6	0.0	8.6	11.5	10.5	14.5	(3.1)	0.91	4.8	4.8	2.8	36.3%	5.9	4%	8%
OUE Commercial Trust	1,118	385	0.53	1.0	2.9	8.2	5.0	10.4	(11.4)	15.2	17.8	(13.3)	0.75	6.4	6.4	4.4	39.3%	2.3	19%	29%
Frasers Commercial Trust	1,108	2,702	1.66	(0.6)	(1.2)	6.4	12.2	16.9	16.1	21.2	23.0	(2.4)	1.06	5.8	6.0	3.9	28.4%	4.6	18%	13%
Office REITS (excl. MUST)	**3,094**	**8,968**		**0.1**	**(0.4)**	**5.4**	**5.6**	**12.3**	**9.8**	**16.4**	**20.4**	**(5.3)**	**1.0**	**5.2**	**5.3**	**3.3**	**35.4%**	**4.5**	**13%**	**19%**

*Note: *Closing price as at 10 Jul 2019*
Source: RHB, Bloomberg

Figure 22: US office REIT peers*

	BBG Ticker	Market cap (USDm)	3M-ave volume ('000)	Last price (LCY)	1D	5D	1M	3M	6M	12M	YTD	vs 52W-low	vs 52W-high	P/B (x)	Div yield
U.S. Office REITs		**104,647**	**740.66**		**0.4**	**1.8**	**0.3**	**(0.5)**	**12.3**	**1.5**	**19.9**	**25.1**	**(8.2)**	**1.7**	**3.6**
Boston Properties Inc	BXP US Equity	20,686	677.8	133.87	1.4	2.0	0.1	(3.3)	12.4	6.3	18.9	24.1	(4.6)	3.67	2.9
SL Green Realty Corp	SLG US Equity	6,965	673.8	81.60	0.5	0.8	(7.2)	(10.1)	(6.8)	(19.8)	3.2	6.3	(23.4)	1.22	4.2
Columbia Property Trust Inc	CXP US Equity	2,519	469.2	21.55	0.6	1.8	(0.3)	(5.7)	7.3	(6.1)	11.4	19.2	(14.0)	0.93	3.7
Piedmont Office Realty Trust Inc	PDM US Equity	2,587	753.7	20.60	0.2	2.4	0.3	(2.3)	13.7	2.1	20.9	25.3	(3.7)	1.50	4.1
Brandywine Realty Trust	BDN US Equity	2,605	1,621.3	14.79	0.3	1.1	(3.6)	(7.5)	6.6	(12.3)	14.9	20.0	(13.3)	1.47	5.2
Corporate Office Properties Trust	OFC US Equity	3,107	707.1	27.76	0.2	2.2	(3.7)	0.2	17.4	(7.0)	32.0	38.6	(10.5)	1.93	4.0
Mack-Cali Realty Corp	CLI US Equity	2,156	419.1	23.87	0.1	2.2	2.2	6.1	17.6	17.0	21.8	27.4	(4.1)	1.27	3.4
City Office REIT Inc	CIO US Equity	482	192.8	12.15	(0.5)	(1.9)	0.6	7.3	8.6	(5.8)	18.5	24.9	(7.1)	1.96	7.7
Alexandria Real Estate Equities Inc	ARE US Equity	17,568	882.2	148.92	0.6	3.2	(1.4)	3.8	23.7	16.3	29.2	36.6	(3.0)	2.20	2.6
Kilroy Realty Corp	KRC US Equity	7,785	467.0	77.10	(0.3)	2.1	3.1	0.8	15.0	1.2	22.6	30.6	(2.4)	1.98	2.4
Douglas Emmett Inc	DEI US Equity	7,038	792.6	41.33	0.5	2.2	1.1	(0.3)	17.2	2.5	21.1	27.9	(2.5)	2.98	2.5
Highwoods Properties Inc	HIW US Equity	4,573	590.2	44.10	0.6	2.6	0.6	(4.9)	4.6	(13.7)	14.0	18.9	(14.3)	2.12	4.3
Paramount Group Inc	PGRE US Equity	3,370	1,233.3	14.37	0.7	1.6	(1.5)	(0.6)	8.4	(7.8)	14.4	18.0	(10.5)	0.84	2.8
Equity Commonwealth	EQC US Equity	4,085	530.2	33.51	0.5	1.6	(0.2)	2.5	9.0	14.5	11.7	17.7	(2.0)	1.25	0.0
Hudson Pacific Properties Inc	HPP US Equity	5,402	862.3	34.99	1.7	2.9	2.0	1.0	16.2	(1.4)	20.4	29.0	(2.5)	1.56	2.9
Empire State Realty Trust Inc	ESRT US Equity	2,717	1,149.2	15.34	0.9	1.5	0.6	(3.1)	2.8	(11.0)	7.8	12.3	(14.1)	2.24	2.8
Cousins Properties Inc	CUZ US Equity	5,569	2,374.6	38.01	0.8	2.5	2.2	(2.3)	11.5	(0.7)	20.3	26.2	(5.9)	1.45	3.0
CIM Commercial Trust Corp	CMCT US Equity	892	14.5	20.37	(1.5)	(2.1)	(0.6)	4.2	24.0	35.3	34.2	57.9	(4.8)	1.43	N.M
Franklin Street Properties Corp	FSP US Equity	833	310.1	7.77	1.0	2.5	3.3	1.4	12.8	(12.1)	24.7	32.4	(15.7)	1.02	4.6
Tier REIT Inc	TIER US Equity	1,603	377.2	28.88	N.M	N.M	4.2	0.2	34.1	22.2	40.0	0.0	(4.0)	2.05	N.M
NorthStar Realty Europe Corp	NRE US Equity	840	613.7	17.01	0.1	3.9	4.9	(2.7)	4.2	21.1	17.0	36.1	(7.8)	1.25	N.M
Easterly Government Properties Inc	DEA US Equity	1,267	582.6	18.6	0.2	2.4	1.1	4.1	9.5	(6.9)	18.8	22.8	-9.4	1.3	5.6

*Note: *Closing price as at 10 Jul 2019*
Source: RHB, Bloomberg

Key Risks

Further ratifications in tax structure

One of the key reasons for US-based REITs to generate superior yields is mainly due to the tax-efficient structure, which minimises tax leakages. Based on the draft-proposed regulations by the US Treasury in Dec 2018, the existing structure is not expected to see any changes. However, if the US Government decides to change such tax structures in the future, it could result in the REIT paying higher taxes – which will negatively impact distributable income and dividend yields.

Failure of co-working operator model

A key driver of the recent boom in US office demand has been the rise in co-working office trends. However, most of the co-working operators are not currently profitable, and have been largely relying on investor funding for the expansion of office space. Thus, a key risk to long-term office demand could be the potential failure of co-working operators to sustain in the long run, which could result in high vacancy rates in office space and negatively impact rent.

Declining trend of office space allocation per employee

A recent Harvard study revealed that office space per worker in the US has been on a decline. Companies have reduced office footprint to cut costs, improve energy efficiency and adjusted to workers telecommuting. If this trend continues, it could have a long-term negative impact on US office demand.

Ability to retain key tenants

KORE, in general, has a very good diversified tenant base – with Top 10 tenants accounting for less than 20% of total income. However, some of the smaller assets have a higher proportion of space anchored by large tenants. Failure to retain such key tenants could potentially have a short-term negative impact on DPU.

Slowdown in technology and professional services sectors

KORE's office portfolio is subject to the vagaries of the volatile US office market cycles, which have historically seen huge swings in terms of occupancy and rent. A potential slowdown in technology and professional services sectors – which are key trade sectors in its portfolio – will also have a negative impact on distributable income.

Risk of terrorism and natural disasters

The rising terrorism risk in the US poses a threat to KORE's office properties. The properties face the risk of suffering physical damage caused by fire, terrorism, acts of God such as natural disasters like earthquakes or other causes, as well as potential public liability claims, including those arising from the operations of the properties.

Potentially dilutive equity fundraising to fund acquisitions

We expect KORE to use a combination of debt and equity to fund future acquisitions. With the likelihood of further compression in the US office cap rates due to the current low interest rate environment, there is a possibility that future acquisitions could be marginally dilutive in nature for existing unitholders if management decides to do so.

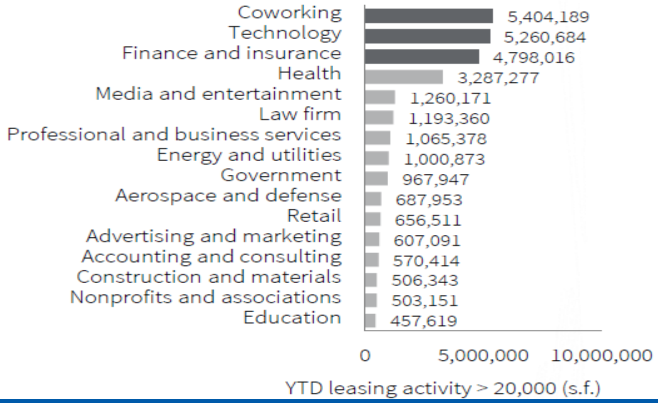
Industry Outlook

US office market continued its growth streak in 1Q19. According to JLL Research (1Q19), the office market is broadly in an expansionary mode with net absorption of 14m sqf, pushing vacancy down to 14.7%, as the supply wave has paused, leaving deliveries to later in 2019 and further into 2020. Similarly, asking rents remain on a slower-but-still-upward trajectory, and rose by a steady 0.8% QoQ and 2.4% YoY, in line with recent quarters. Other themes that have accelerated over the past 6-8 quarters, namely flight to quality and divergence in performance by asset class, firmed during 1Q19, and are expected to continue over the course of 2019.

Leasing momentum remains strong, co-working a key driver. In 1Q19, the US office market saw 30.4m sqf of activity –taken up by large tenants (occupying over 20,000 sqf each), almost exactly in line with the 8-quarter trailing average, according to JLL data. Of this activity, the "Big-3" industries of technology, finance and co-working represented 47.7% of all leasing, further demonstrating their importance to the broader leasing market. Co-working in particular maintains its status as a key driver of growth, as nearly all activity is pure expansion. About 40% of leasing was expansionary in nature – healthy, but below the 45–55% typically seen in recent years.

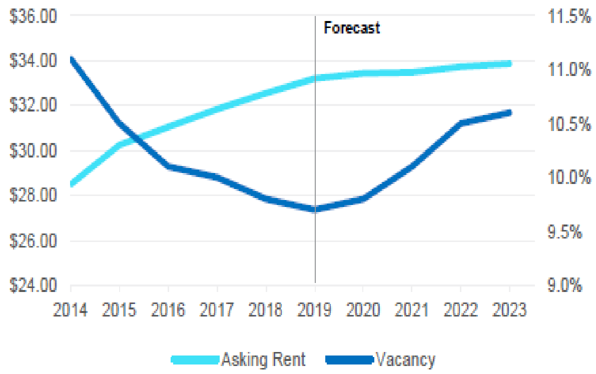
Asking rents continue to grow, but concessions are rising. According to JLL, direct average asking rents rose by 0.8% QoQ to USD24.75 psf. This represents an annual increase of 2.9%, similar to the 2.5-3.5% levels in 2017 and 2018. As with absorption, growth in asking rents has entirely been in the Class A segment of the market, where rents rose by 1.3% QoQ in 1Q19 compared to a decline of 1.1% for a Class B product. The JLL report also notes that concessions are showing no signs of deceleration; tenant improvement allowances are up 13.3% YoY in gateway geographies and should continue to put downward pressure on effective rents, with continued competition for tenants and as landlords attempt to stave off further increases in construction costs.

Figure 23: Leasing demand by trade sectors (1Q19)



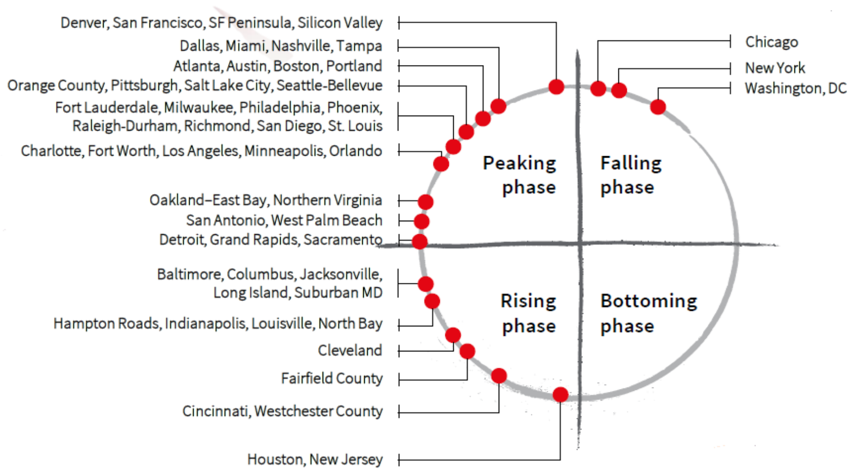
Source: JLL Report (1Q19)

Figure 24: Overall asking rates & vacancy



Source: Costar report dated 3 Apr 2019

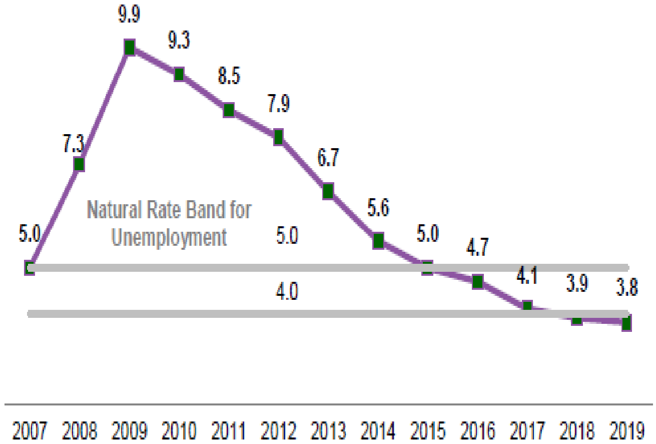
Figure 25: US office clock



Source: JLL 1Q19 report

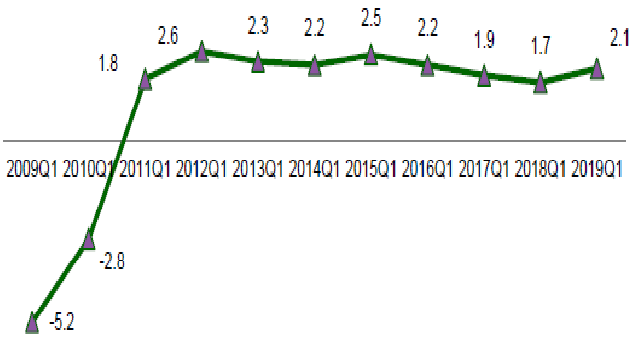
Economic indicators strongly supportive of office demand. Overall. the leading and lagging indicators of economy (job data, consumer sentiment) continue to remain overwhelmingly positive. At the same time, headwinds are beginning to mount, given the potential of slowing growth as well as political uncertainty from rising trade tensions between the US and China. Employment activity, for now, remains robust with the US nonfarm payrolls (june) adding 224,000 jobs, topping all economists' expectations.

Figure 26: US unemployment (%)



Source: US Department of Labour, Manulife US REIT

Figure 27: US office employment (YoY %)

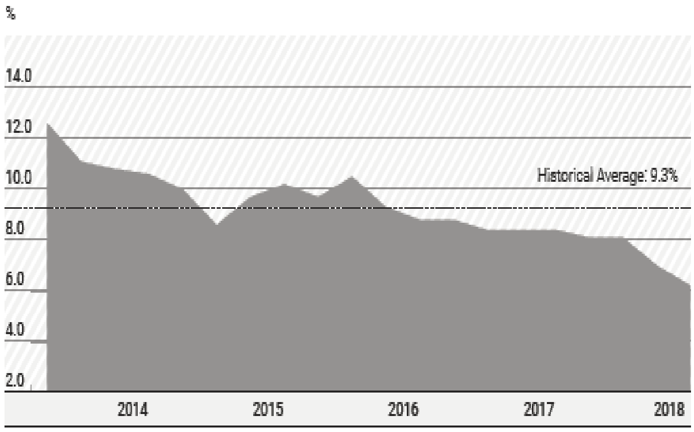


Source: Costar Market Analysis & Forecasts reports

Seattle – Bellevue overview. Sustained strong economic growth in the metro area encouraged growing demand from tenants looking to establish a presence or expand. As such, leasing activity remained at the high levels, with no expectations of the market softening over the next 1-1.5 years. According to JLL, overall vacancy fell to 9.4% with asking rents continuing to increase across all sub-markets. Low vacancy and limited space options have given landlords more negotiating leverage.

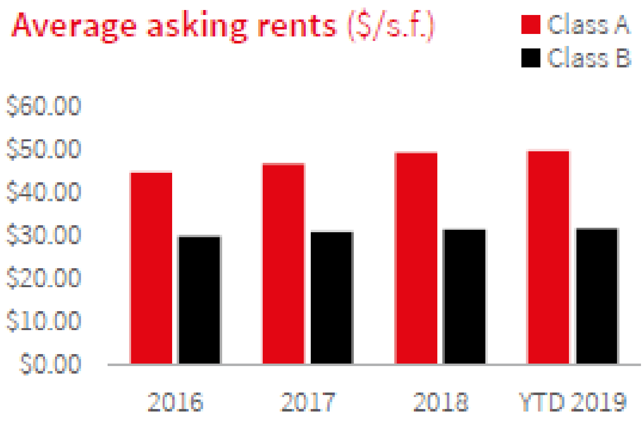
The average Class A asking rents, particularly in the Bellevue CBD, posted a 6.2% YoY increase, signalling that the rent growth momentum observed in 2018 showed no signs of slowing down. Given that availability is relatively low in the core sub-markets, demand in the suburbs is expected to increase, which is supportive of rent growth and occupancy.

Figure 28: Seattle Bellevue office vacancy trend



Source: Cushman & Wakefield

Figure 29: Average asking rents trend

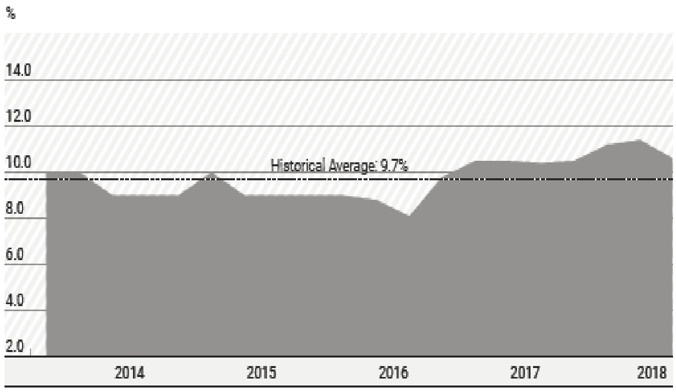


Source: JLL Research (1Q19)

Austin overview. According to Aquila Research, there are several factors driving the strong office market in Austin, which includes a highly-qualified workforce, the city's favourable business tax structure, rising popularity as a technology hub, and the ability to attract start-up companies as well as largest companies including Amazon, Facebook, Apple, IBM and more – all having a sizeable office presence. Austin's unemployment rate of 2.9% is one of the lowest of the Top 50 large metro areas in the US, and the market continues to create jobs.

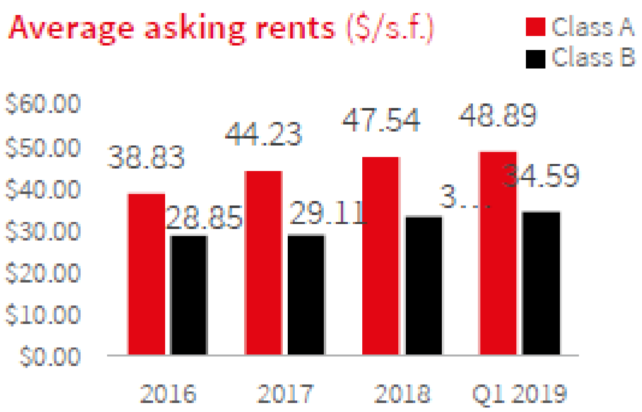
Based on Cushman and Wakefield, the overall vacancy rate in Austin fell to 10.6% in 4Q18, -80 bps QoQ. The CBD saw even lower vacancy, with an overall vacancy rate of 7.7% for all classes, and 5.9% for Class A properties. The overall asking rate for the entire Austin market increased to USD36.3 psf, while the CBD average rental rate of USD52.9 psf maintained its position as the highest across all sub-markets. Overall, Austin appears suited to weather most economic storms due to its importance as a technological, governmental and educational hub.

Figure 30: Austin office vacancy trend



Source: Cushman & Wakefield

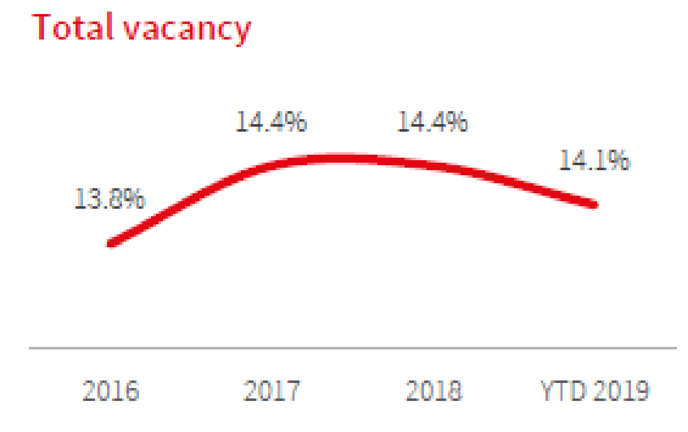
Figure 31: Average asking rents



Source: JLL Research (1Q19)

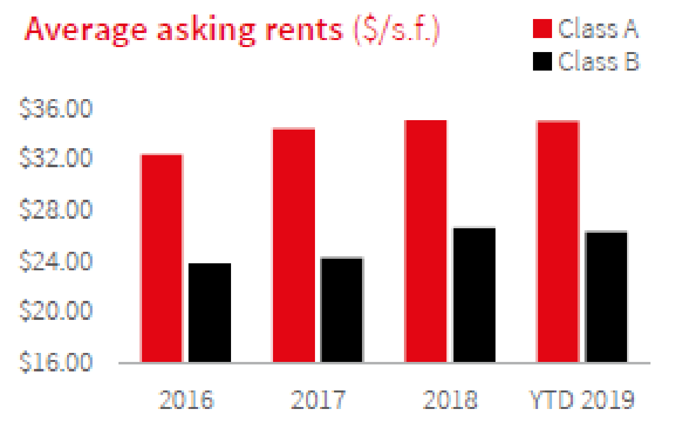
Denver overview. The rising property taxes, construction costs and higher ownership bases are continuing to boost rental rates in Denver, according to JLL. Technology and co-working continues to remain the key drivers of demand accounting for more than one-third of leases in 1Q19. WeWork is speedily becoming one of the largest tenants downtown, with total lease signing of nearly 800,000 sqf. In terms of area, 75% of the newly-constructed buildings are preleased, which is expected to keep vacancy rates in check. Based on JLL data, overall vacancy rates for 1Q19 fell to 14.1% from 14.4% as at end-2018. With comparatively lower costs and a highly skilled workforce, Denver will be targeted by the Bay Area and Seattle technology firms, particularly start-ups looking to stretch their funding.

Figure 32: Denver office vacancy trend



Source: JLL Research (1Q19)

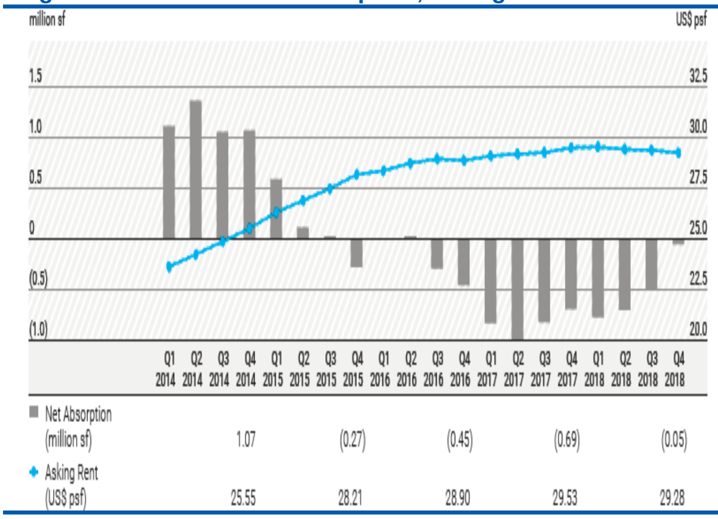
Figure 33: Average asking rents



Source: JLL Research (1Q19)

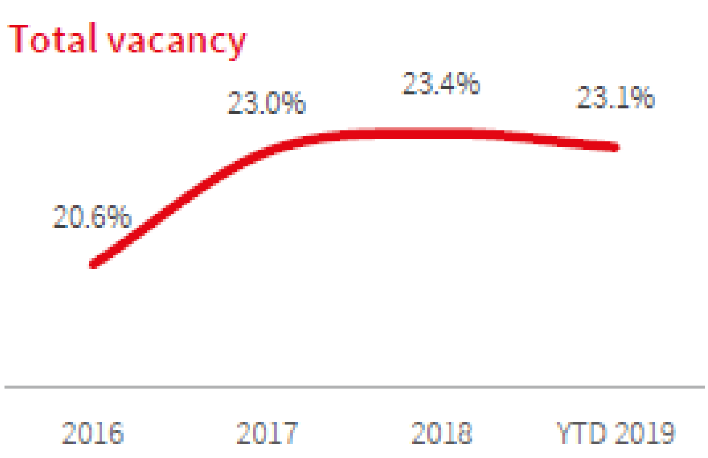
Houston overview. The Houston market is on the road to recovery. Based on the data from JLL, Houston office vacancy rates are starting to fall, and currently at 23.1% after peaking at 24.5% in 2Q18. On the demand side, net absorption remained positive for the third consecutive quarter, totalling just over 600,000 sqf After four years of weak fundamentals, the Houston market is finally showing signs of sustained growth due to strong job growth, robust leasing activity, and positive net absorption. As such, JLL expects market conditions to favour tenants in the near term, as the market continues its recovery to return to a more balanced state in the coming years.

Figure 34: Houston net absorption, asking rents



Source: Cushman & Wakefield

Figure 35: Total vacancy



Source: JLL Research (1Q19)

Orlando overview. Orlando is the only major Florida market to record positive absorption in 2018. According to JLL, growth in occupancy rates slowed as vacancy rates stabilised to about 10.2% in 4Q18. A limited development pipeline, coupled with a lack of quality products on the market impeded tenant expansion plans in the past few quarters. More than 33% of the 2.8m sqf of tracked leases in 2018 comprised renewals. This tightening resulted in another quarter of record high rents at $23.83 psf, and this is likely to continue in the short term given the lack of supply. Strong leasing figures in 2018 should translate into occupancy gains going into 2019, even with the market at record occupancy levels. Rental growth is expected to level out as quality spaces are taken off the market.

Atlanta overview. Despite the early volatility, net absorption ended 2018 on a positive note. Absorption was lower for most of 2018 due to corporate consolidations, although strong occupancy rates helped to support much of the downward pressure. Asking rates climbed, with urban markets taking the lead as urban Class A asking rates hit a historic high for CBD properties at USD34.89 psf. While companies continue to favour Atlanta, the expansion of Atlanta's development pipeline is ramping up. According to JLL, only 16% of the 3.4m sqf under construction is considered build-to-suit. With steady demand but rising construction costs, it is difficult to ascertain if Atlanta's development pipeline is likely to slow down. However, Atlanta's strong market fundamentals, continued population growth and investor confidence in the market may push this momentum into 2019.

Sacramento overview. According to JLL, Sacramento office leasing demand continued to remain healthy in 1Q19, with the public sector being the key source of demand. This has pushed down the vacancy rates with overall asking rents rising steadily through greater Sacramento area. In 1Q19, Class A rents rose 4% YoY in the CBD, highway 50 and Roseville sub-markets based on JLL data. The outlook remains rosy, with market continuing to see employment growth and limited availability of office space, which should keep rents in the uptrend.

Annex A: Portfolio Property Details

KORE's portfolio comprises 13 freehold office properties strategically located in seven key growth cities. The geographical diversification across the economically vibrant western, central and eastern coasts of the US provides some resilience across market cycles. In terms of property valuation, the West Coast accounted for 57% of total followed by central 31%, and East Coast (12%). Below is the key summary of its property portfolio.

Figure 36: US portfolio property locations

Property	City	Location	NLA (sf)	Committed occupancy (by NLA)	WALE (in years)	Valuation (US$m)[1]
The Plaza Buildings	Seattle	Bellevue CBD, one of the most active leasing submarket in Seattle	490,994	94.2%	3.6	253.5
Bellevue Technology Center	Seattle	Bellevue, one of the most active leasing submarket in Seattle	330,508	98.5%	3.6	136.0
Westpark Portfolio	Seattle	Redmond submarket, one of the best performing office markets in the Seattle region	782,185	97.8%	3.8	178.0
Iron Point	Sacramento	Carmichael / Fair Oaks / Citrus Heights; Expected to outperform the overall Sacramento market	211,944	95.8%	2.8	37.0
Westmoor Center	Denver	Northwest Denver; Well-positioned to capture tenants that outgrow nearby Boulder, and has better quality real estate	612,890	83.7%	5.1	126.4
Great Hills Plaza	Austin	Northwest submarket, a popular office locale along the Capital of Texas Highway corridor	139,252	96.5%	4.1	37.3
Westech 360	Austin	Northwest submarket, a popular office locale along the Capital of Texas Highway corridor	177,615	93.4%	2.8	46.6
1800 West Loop South	Houston	West Loop, which is amenity-rich and highly sought after	400,101	78.1%	4.1	75.5
West Loop I & II	Houston	Bellaire, one of Houston's most desirable and affluent neighbourhoods	313,873	90.5%	4.6	42.2
Powers Ferry	Atlanta	Cumberland / I-75: Have been outperforming greater Atlanta market in terms of occupancy rate	149,324	94.9%	3.0	19.8
Northridge Center I & II	Atlanta	North Central / I-285 / GA 400: Home to numerous Fortune 500 companies, which solidifies the positive attributes of the location	188,944	86.7%	2.9	20.9
Maitland Promenade I	Orlando	Maitland Center, which is dominated by finance, insurance, tech and strong activity in the Class A market	230,366	97.9%	3.8	48.9
Maitland Promenade II	Orlando	Maitland Center, which is dominated by finance, insurance, tech and strong activity in the Class A market	230,371	98.3%	4.6	43.6
			4,258,367	**92.1%**	**3.9[2]**	**1,065.7**

Source: Company

The Plaza Buildings, Seattle

Situated along one of the busiest corridors in the Bellevue CBD in Seattle, The Plaza Buildings consists of two Class A office buildings – Plaza Center and the US Bank Plaza, which are surrounded by an array of retail amenities, dining options and parks. Both buildings have been extensively refurbished to meet the needs of modern and premier tenants from diverse industries.

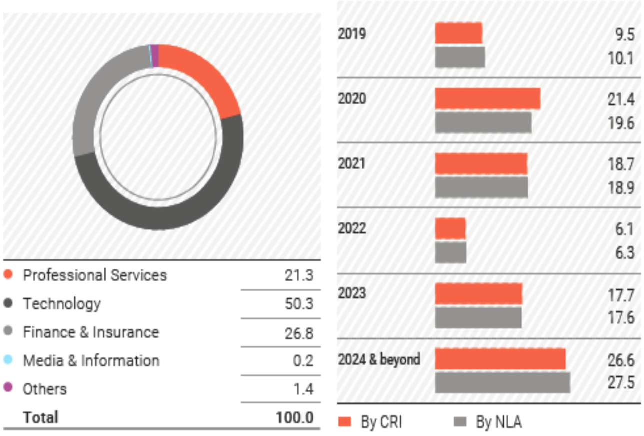
The buildings enjoy full-block frontage along NE 8th street, the primary east-west arterial in downtown Bellevue that connects commercial users to Interstate 405. The Bellevue Transit Center, served by more than 20 bus routes around Seattle and the Eastside, is a short distance away. The Plaza Buildings was awarded the US Leadership in Energy and Environmental Design (LEED) Gold status from the US Green Building Council.

Technology companies currently account for more than slightly half of the building, with Blucora Inc and Futurewei Technologies Inc occupying ~18% of total space as at FY18. Another key anchor tenant of the building is the US Bank National Association which occupies ~11% of total space. The lease expiry profile of the building is well spread out with c.10% and 21% of the leases by CRI due for renewal in 2019 and 2020.

Figure 37: The Plaza Buildings

Source: Company

Figure 38: Tenant sectors and lease expiry



Source: Company data

Bellevue Technology Center, Seattle

The Bellevue Technology Center is located in the 520 Corridor sub-market of the Seattle-Bellevue regional office market – not far from the Microsoft Corp (MSFT US, NR) global headquarters and Interstate 520 highway. Over the last five years, the office campus, which features nine Class A and B buildings, has undergone capital improvements with an upgraded fitness centre, conference room, full-service cafe and new parking stalls.

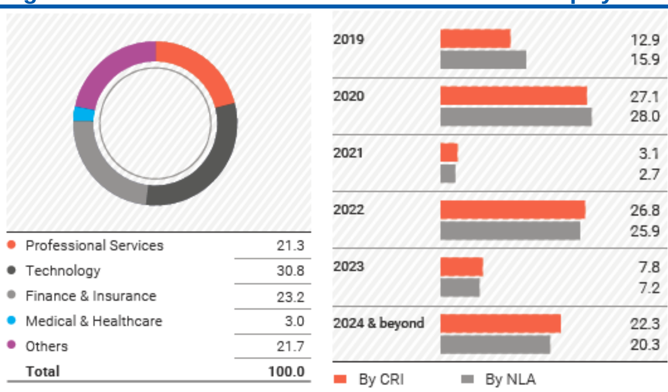
Being situated close to Microsoft should benefit the Bellevue Technology Center as new ventures by Microsoft could result in an increase in vendors and contractors that work with the software company. This could drive demand for space at nearby properties, including the Bellevue Technology Center.

Its main tenants are from the technology (31%), financial service (23%) and professional services (21%) sectors, with top tenants (as at FY18) being Uniguard Insurance (22%), Regus (16%), and Hitachi data systems (10%). The lease expiry profile of the building is well spread out with c.13% and 27% of the leases by CRI due for renewal in 2019 and 2020.

Figure 39: Bellevue Technology Center

Source: Company

Figure 40: Tenant sector breakdown and lease expiry



Source: Company data

The Westpark Portfolio, Seattle

The Westpark Portfolio is a business campus comprising 21 freehold buildings – Westpark Business Park, which encompasses 14 two-story office buildings; Redmond Center Court, which encompasses two industrial buildings; and Pacific Business and Technology Center, which encompasses five office buildings.

Located adjacent to downtown Redmond, Washington, the Westpark Portfolio sits in a park-like setting, with easy access to major transit routes including State Route 520 and Interstate 405. Redmond Town Center, Redmond Transit Center, Marymoor Park. The Microsoft global headquarters are also nearby.

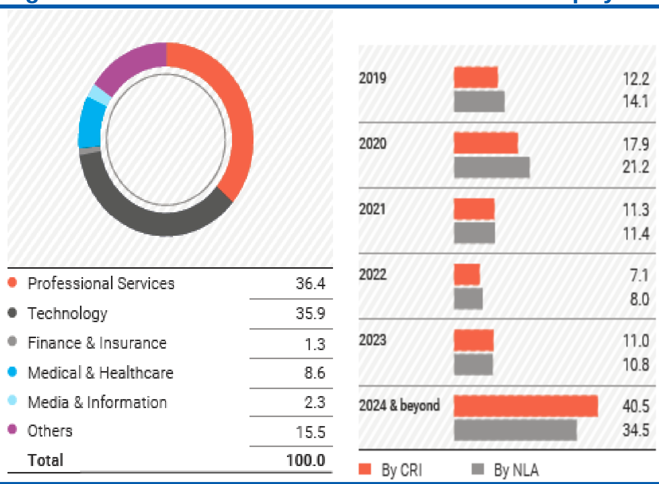
The Westpark Portfolio underwent extensive capital improvements in 2016, which included the conversion of underutilised space to a brand new amenities centre, landscape renovation, and exterior refurbishment. Successful repositioning of the property has resulted in strong leasing traction among technology and professional services companies.

Professional services (36%) and technology (36%) are the key trade sectors in the asset, with Oculus VR Inc (15%) being the major tenant in the property. There is no leasing concentration risks with less than 22% of the lease due for renewal each year over the next five years.

Figure 41: The Westpark Portfolio

Source: Company

Figure 42: Tenant sector breakdown and lease expiry



Source: Company data

Iron Point, Sacramento

Iron Point is centrally located in Folsom, Sacramento. Folsom is the preferred residence to many of Sacramento's higher-income executives, which positions Iron Point as the choice business address.

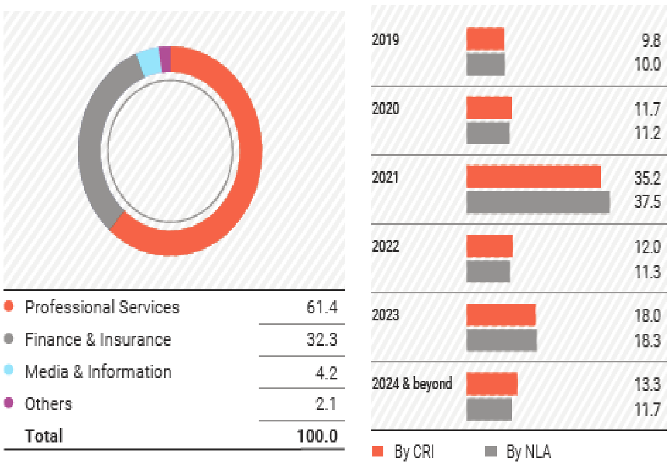
The five Class A office buildings are highly accessible via US Highway 50, and is close to numerous retail and service amenities. It is also located directly across Intel Corp's (INTC US, NR) Folsom Campus that serves as one of Intel's four major US sites.

In terms of trade sector, professional services (61%) and financial (32%) occupy the majority of the property with Sierra Pacific Mortgage Company (19%) being the largest tenant. Except for FY21, where about 35% of lease by CRI are due for renewal, the remaining leases are well spread out across several years.

Figure 43: Iron Point

Source: Company

Figure 44: Tenant sector breakdown and lease expiry



Source: Company data

Great Hills Plaza, Austin

Located in Northwest Austin, Texas, Great Hills Plaza (GHP) is a Class B office building, which is close to residential housing, retail centres including Arboretum - one of Austin's major retail centres, and is served by two freeways. The building is also minutes away from the Austin central business district.

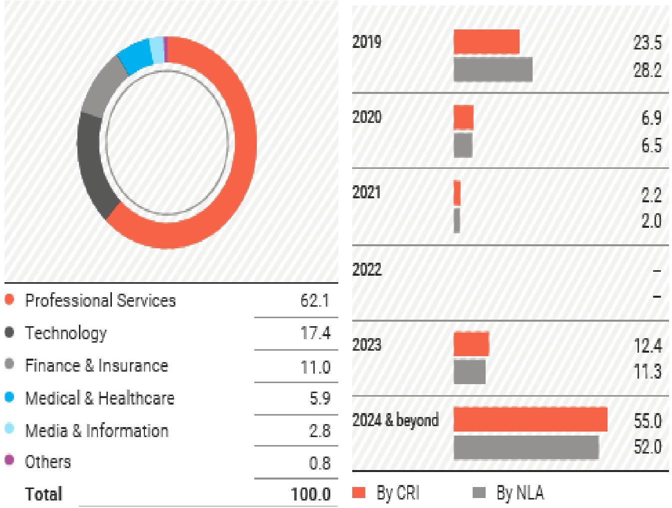
The property was upgraded recently, and is occupied by tenants from a diverse range of trade sectors. It currently features a modernised lobby as well as remodeled atriums with enhanced landscaping. Great Hills Plaza is a recipient of the US Environmental Protection Agency's prestigious *ENERGY STAR* label.

Professional services (62%) and technology (17%) are the key trade sectors at GHP, with E2Open LLC (20%) and Regus (19%) being the key tenants. There is about 30% of leases due for renewal by 2020 – which we believe is positive due to strong market dynamics post after which there minimal expiries until 2024.

Figure 45: Great Hills Plaza

Source: Company

Figure 46: Tenant sector breakdown and lease expiry



Source: Company data

Westech 360, Austin

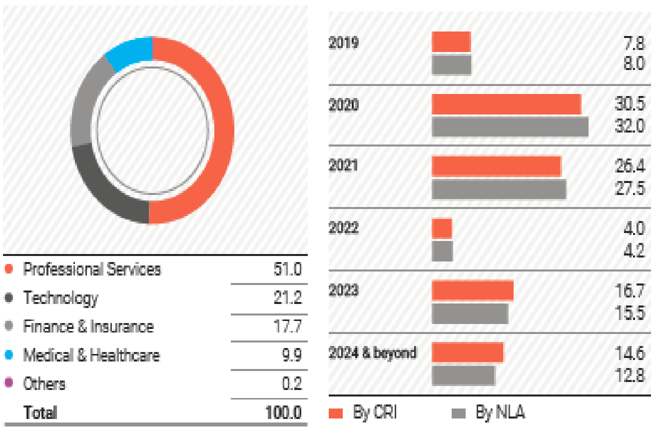
Located along the Loop 360 Corridor (also known as Capital of Texas Highway) in Northwest Austin, Westech 360 is an office park that comprises four Class B buildings. It enjoys excellent accessibility to the major business centres around Austin and is well served by two freeways and a network of primary and secondary neighbourhood roads.

Tenants from the professional services as well as finance and insurance sectors largely occupy these buildings. The office park underwent significant capital improvements over the past few years, including an extensive upgrade of the landscaping, signage and lighting for the buildings to increase its visibility from Loop 360. The property is a recipient of the US Environmental Protection Agency's prestigious ENERGY STAR © label.

Figure 47: Westech 360

Source: Company

Figure 48: Tenant sector breakdown and lease expiry



Source: Company data

1800 West Loop South, Houston

Located in Uptown Houston in the Galleria sub-market, 1800 West Loop South is a Class A landmark office tower. The property's location within the well-established sub-market offers close proximity to demand generators and local amenities. Additionally, its location within the uptown area has a significant household base to the north (Tanglewood) – one of the wealthiest neighbourhoods in the Houston area.

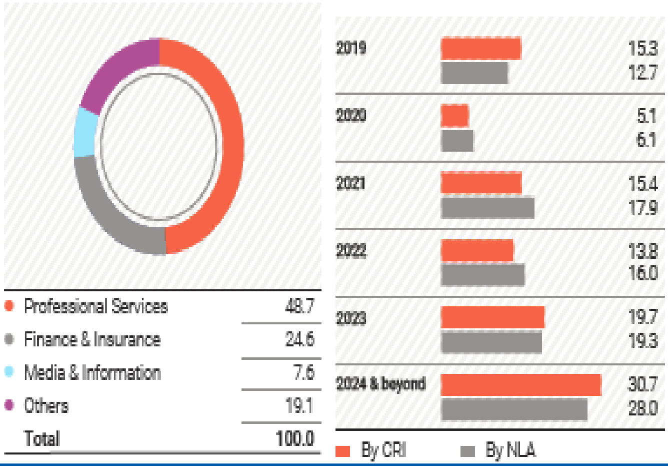
The property offers highly functional floorplates averaging 20,000 sqf, and can accommodate up to eight corner offices per floor. Recent asset enhancements include a complete renovation of the building lobby, elevator modernisation and an addition of a new conference room facility.

Its close proximity to major roads and public transportation with good accessibility to surrounding markets. The building has obtained LEED Gold status. Additionally, it is a multiple recipient of the US Environmental Protection Agency's prestigious *ENERGY STAR* label.

Figure 49: 1800 West Loop South

Source: Company

Figure 50: Tenant sector breakdown and lease expiry



Source: Company data

West Loop I & II, Houston

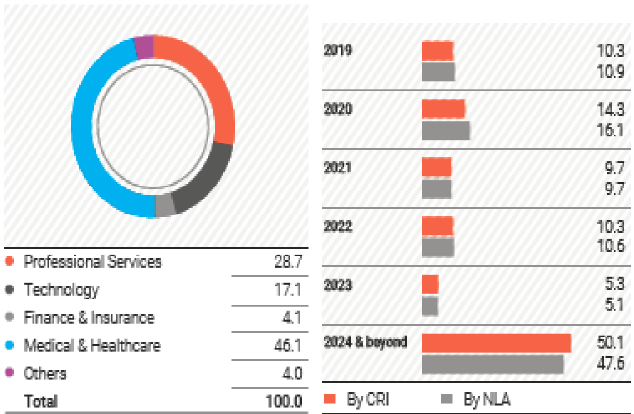
West Loop I & II feature two Class A office buildings located in Bellaire, an affluent suburb in Houston, Texas, which has a significant residential household base. The buildings underwent significant refurbishments in 2013 and 2014, resulting in remodelled entrances, complete elevator modernisations and improved chillers, and cooling towers to help retain existing tenants and attract new tenancy.

Situated about six miles west of the Houston CBD, the property benefits from its location near the medical centre, which contributed to its high concentration of tenants from the healthcare and professional services sectors. The property is also located near major thoroughfares and public transportation with good accessibility to surrounding markets.

Figure 51: West Loop I & II

Source: Company

Figure 52: Tenant sector breakdown and lease expiry



Source: Company data

Powers Ferry, Atlanta

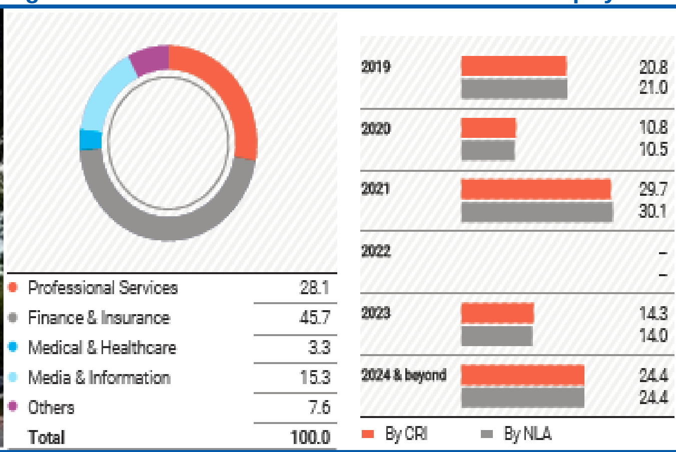
Powers Ferry is a six-storey Class B office building situated in the Cumberland/I-75 sub-market of the Atlanta Office Market. The property benefits from being located within a well-established sub-market that is easily accessible via Interstates 285 and 75 – proximate to primary demand generators, and local area amenities.

In addition, the property is located within the city of Sandy Springs, which has a significant household base that supports professional and financial services and healthcare-related tenancy. In 2013, Powers Ferry renovated its common areas, conference facilities and tenant amenities to maintain and boost tenancy.

Figure 53: Powers Ferry

Source: Company

Figure 54: Tenant sector breakdown and lease expiry



Source: Company data

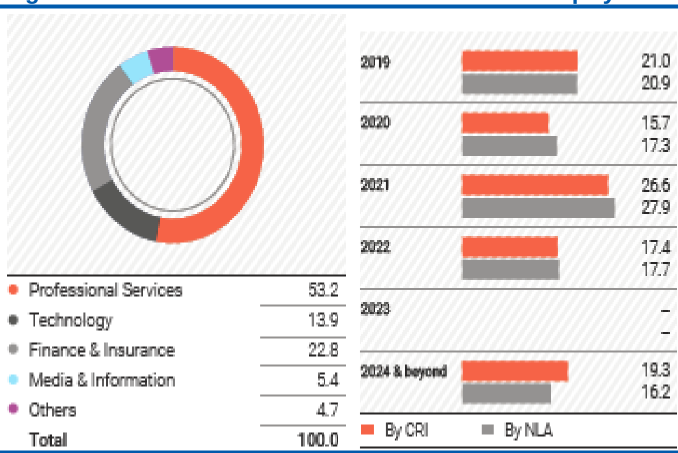
Northridge Center I and II, Atlanta

Northridge Center I & II feature two Class B buildings, located in the Central Perimeter, one of the largest office sub-markets in Atlanta, Georgia. Refurbished in 2011 with upgraded lobbies and common areas, Northridge Center I & II enjoy excellent access to affluent suburbs, medical facilities, interstate access and the Metropolitan Atlanta Rapid Transit Authority Rail System.

Figure 55: Northridge Center I and II

Source: Company

Figure 56: Tenant sector breakdown and lease expiry



Source: Company data

Maitland Promenade I and II, Orlando

Maitland Promenade II was a part of the IPO portfolio while Maitland Promenade I was recently acquired in Jan 2019. Maitland Promenade I and II feature two Class A office buildings located in Orlando, Florida. Situated in the heart of the city's largest and well-established sub-market, the Maitland Center and a few miles away from the CBD, the property is close to primary demand generators and amenities. Moreover, its location within the community of Maitland has a significant household base that supports professional and financial services as well as healthcare-related office tenancy.

The property also provides direct access to destinations throughout the Orlando Metropolitan Statistical Area and Interstate 4, and is less than an hour's drive from the Orlando International Airport.

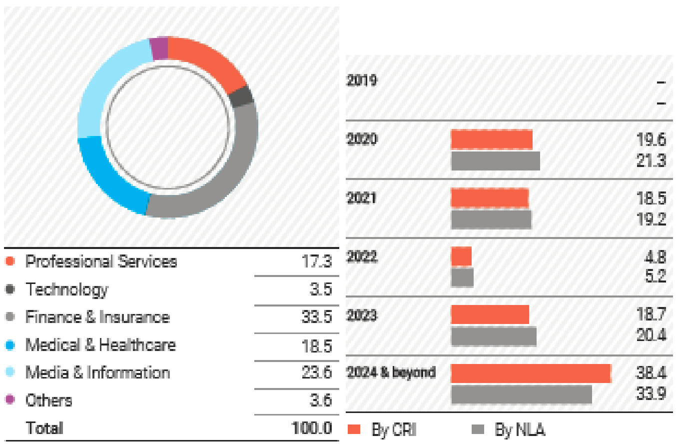
Maitland Promenade I and II are designed and built with contemporary architecture, modern building systems, and highly functional floor plates, which can accommodate large and small users. From 2013 to 2016, common areas in Maitland Promenade II were renovated, and the property was equipped with a new conference facility.

Financial and insurance, professional services, and media & information are the top three trade sectors of the assets. Both properties have a well spread out lease profile over the next five years posing no leasing concentration risks.

Figure 57: Maitland Promenade I

Source: Company

Figure 58: Tenant sector breakdown and lease expiry

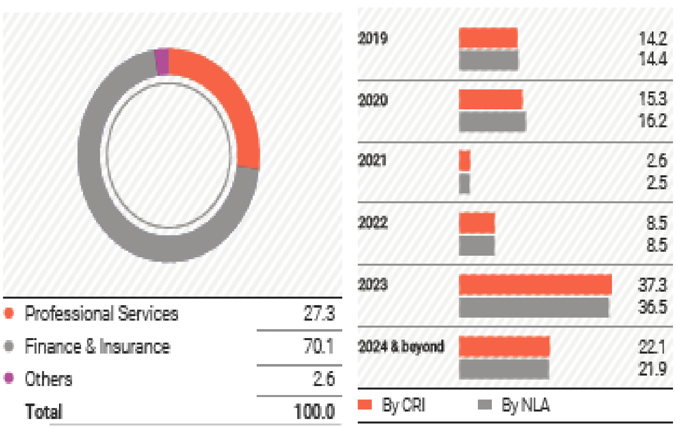


Source: Company data

Figure 59: Maitland Promenade II

Source: Company

Figure 60: Tenant sector breakdown and lease expiry



Source: Company data

Annex B: Key Management Team

Figure 61 : Key management team

Name	Designation	Major Appointments/Past Exprience
Mr Peter McMilan III	Chairman and Non-executive director	• Co-founder, KBS Capital Advisors LLC; • Co-founder and Managing Partner, • Willow brook Capital Group, LLC; • Co-founder, Temescal Canyon Partners
Mr David Snyder	CEO/chief investment officer	• Chief Financial Officer of KBS • Chief Financial Officer, Treasurer and Secretary of KBS Strategic Opportunity Reit II, Inc. and KBS Strategic Opportunity REIT, Inc. • Chief Financial Officer, Treasurer and Secretary of KBS Legacy Partners Apartment REIT, Inc. • Chief Financial Officer of KBS Capital Advisors, LLC • Chief Financial Officer of KBS Real Estate Investment Trust Inc. • Vice President & Financial Controller of Nationwide Health Properties • Director of Financial Reporting of Regency Health Services, Inc.
Mr Andy Gwee	Chief financial officer	• Head of Finance of Keppel DC REIT Management • Senior Finance Manager of Keppel Corporation
Mr Chris Cheo	Finance manager	• Finance Manager of Keppel Capital International • Senior Manager of Leeden National Oxygen Ltd.
Ms Grace Chia	Head of investor relations	• Head, Investor Relations & Communications of Keppel Capital International • Senior Manager of Investor Relations of Keppel REIT Management

Source: RHB, Company data

Annex C: Tax Structure

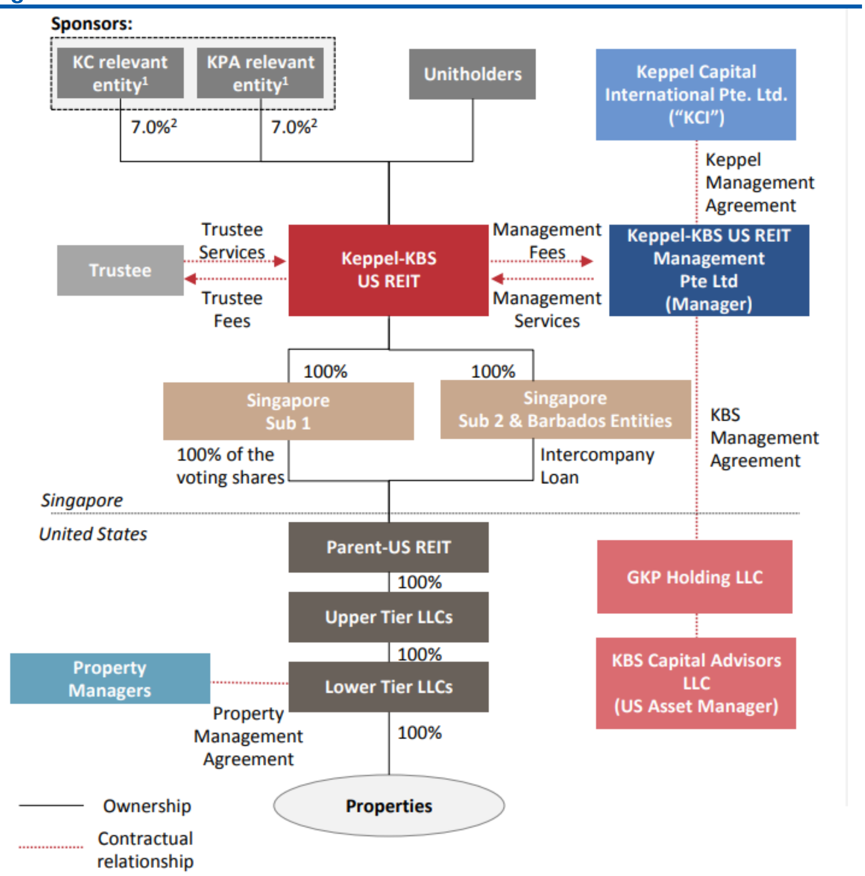
Incomes from individual properties in the US (sub-US REITs) are channelled into a parent US REIT, which is tax-exempted under US REIT regulations. The parent US REIT is fully-owned by groupings labelled as "Singapore Sub 1" (Sub 1) and "Singapore Sub 2 & Barbados Entities" (Sub 2), with KORE as the ultimate shareholder. Sub 1 comprises roughly half of the market capitalisation of the REIT as a shareholder equity component, and has 100% of the voting shares. Sub 2 consists of an intercompany loan, which is equivalent to half of the listing market capitalisation.

- Income from US office properties, distributed as loan interest and principal repayments via Barbados entities (subject to local tax), is tax exempted in the US and Singapore.

KORE receives income from US properties in the form of the interest component and principal repaid on the intercompany loan, which is not subjected to any US taxes. However, the income paid as dividends to Sub 1 is subjected to 30% of the withholding tax – which the manager would actively manage to minimise or pay no dividends from the parent US REIT to Sub 1. The foreign sourced income from Subs 1 and 2 are not subjected to any income taxes in Singapore. The intercompany loan component also can be rebalanced up to 50% of market cap upon the acquisition of new properties.

On 20 Nov 2018, the Government of Barbados announced that Barbados will converge its local and international tax rates. Based on KORE's internal calculations under the proposed Barbados Tax Rates, the worst-case tax impact expected by management should be an addition 1% of the distributable income, compared to the current tax rate of ~1.2%.

Figure 62: KORE's structure



Source: Company data

Annex D: Sponsor Details

KORE is managed by Keppel-KBS US REIT Management Pte Ltd, which is jointly-owned by two reputable sponsors, Keppel Capital Holdings Ltd (Keppel Capital) and KBS Pacific Advisors Pte Ltd (KPA).

KBS Pacific Advisors

The shareholders of KPA include Peter McMillan III and Keith D. Hall, who are co-founding partners of KBS Capital Advisors LLC (KBS), and together they indirectly hold a one-third stake of KBS. As KPA is a co-sponsor of KORE, the manager is able to leverage on KPA's affiliation with KBS, an established commercial real estate investment manager in the US.

One among US largest buyers of commercial real estate. Headquartered in Newport Beach, CA, KBS is one of the largest owners of office properties globally with over 40m square feet in net lettable space across the US. Since inception in 1992, KBS has completed over USD38bn of transactional volume. With over 180 personnel across key US cities, KBS manages over USD11bn worth of assets in seven listed REITs and nine private funds.

Keppel Capital

Keppel Capital is the asset management arm of Keppel Corp (KEP SP, BUY, SGD7.33), and a premier manager of real estate in Asia. Listed on the Singapore Exchange, Keppel is a multinational conglomerate with key businesses in offshore & marine, property, infrastructure and investments, providing innovative solutions for sustainable urbanisation.

Diversified portfolio managed by experienced team. Keppel Capital has a diversified portfolio that includes real estate, infrastructure and data centre properties in key global markets. It is managed by an experienced team of over 200 professionals, and has assets under management that comprise REITs, trusts and private funds that grew from SGD2bn in 2006 to SGD29bn as at end-2018.

Strong brand recognition. As part of the larger Keppel Group, Keppel Capital leverages on its extensive network and platform to create, operate and manage different asset classes, from energy and infrastructure to real estate and premium grade office buildings and townships. Keppel Capital has also, over the years, distinguished itself with its local and deep operational insights, strong track record, and breadth of experience.

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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