

21 May 2024

Property | REITS

Prime US REIT (PRIME SP)

Buy (Maintained)

Clearing The First Major Hurdle; BUY

Target Price (Return): USD0.23 (82.4%)
 Price (Market Cap): USD0.12 (USD162m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (USD/USD) 0.72m/0.72m

- **Maintain BUY and USD0.23 TP, 82% upside.** Prime US REIT's divestment of One Town Center (OTC) is a positive step, in our view, even though it is being sold at slight discount to valuation. The move will lower gearing and provide additional capital buffer against further asset value declines. US office leasing enquiries have been picking up, although conversion rates remain slow. Key catalyst ahead would be the successful refinancing of upcoming loan maturities, for which PRIME is in the final stages of negotiations.
- **The divestment of OTC** in Boca Raton, Florida, to Miles Capital for a sale price of USD82m (excluding sellers' credit of USD4m) is a c.3% discount to end-Dec 2023 valuation of USD84.8m and c.18% discount to its purchase price (Jul 2021) of USD100m. The divestment is set for completion by July with the proceeds used to repay debts. While OTC is one of PRIME's core and better-performing assets (6% of total asset value) with near-full occupancy, the divestment is crucial and timely, in our view, helping to address gearing concerns that will be reduced to 45.8% from 48.4% as at end 2023. The proceeds, coupled with expected retention of upcoming distributable incomes, should help bring down gearing to below 45% and meet capex needs (estimated at c.USD25m for FY24). With this divestment, we believe PRIME can adopt a wait-and-watch approach before considering more asset sales to maximise asset values. This divestment will result in a 2% reduction to pro-forma FY23 net asset value or NAV and distributable income.
- **The refinancing of Jul 2024 debt is in advanced stages**, with management remaining confident of extending it before maturity. PRIME has USD480m of debt (64% of total) due for refinancing in July, of which USD 330m has hedges in place until Jun 2026 – these should mitigate the impact on financing costs. For FY24, we have assumed c.5% overall financing costs, up from FY23's 4%.
- **Leasing enquiries still healthy**, with more interest seen at key assets Park Tower, Tower 1 at Emeryville, One Washingtonian Center (OWC), and 101 South Hanley, albeit with relatively longer lead times. 1Q portfolio occupancy (ex-OWC) dipped slightly to 84.7% from 85.4% as at end 2023. Asset enhancements are planned for OWC (estimated capex: USD6m), which saw the exit of major tenant Sodexo at the start of 2024. Overall rent reversions were a slight negative (-1.8%) for 1Q and is set to be around these levels for the full year, with a focus on net effective rents and longer leases.
- **We have revised lower** our FY24F-26F distributable income by 10-13%, factoring in divestments and higher financing costs, and only expecting a 10% dividend payout this year with the balance used to fund capex. Our TP is pegged at 0.4x FY24F book value. With a 3.2 ESG score vs the 3.1 country median, we ascribe a 2% ESG premium to PRIME's intrinsic value.

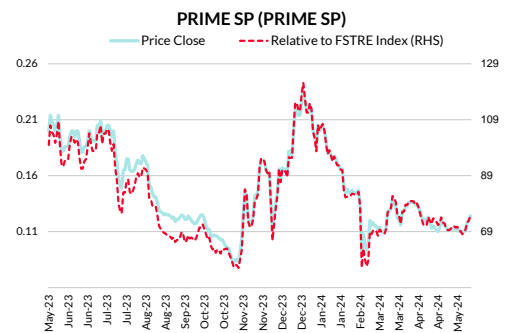
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(43.1)	11.7	31.9	(25.3)	(38.0)
Relative	(32.7)	6.4	35.3	(21.4)	(25.5)
52-wk Price low/high (USD)				0.08	-0.24



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

11 out of the 12 properties in PRIME's portfolio are US Green Building Council Leadership in Energy & Environmental Design (LEED) or Energy Star certified. The REIT has also undertaken additional long-term energy saving initiatives across six key assets.

S: GOOD

PRIME enhanced its workplace safety in light of COVID-19 using technology to ensure social distancing, upgrading air filters, and increased cleaning frequency at high-touch areas. To engage with tenants specifically, the property managers at PRIME's properties regularly held events with overall wellbeing in mind, such as Ice Cream Socials, Lemonade Stands, Hot Dog Events, Holiday Breakfasts, Puppy Therapy, Friday Popcorn, as well as fitness classes.

G: GOOD

PRIME has a majority independent board and clear delineation of roles between the board and management. It has had improving stakeholder engagements since listing, with greater details in earnings quality, as well as market outlook and update disclosures.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	163	160	145	149	158
Net property income (USDm)	97.9	93.6	82.4	84.6	89.3
Reported net profit (USDm)	(27)	(116)	12	44	58
Total distributable income (USDm)	77.1	57.8	43.4	42.1	46.7
DPS (USD)	0.07	0.03	0.00	0.03	0.03
DPS growth (%)	(3.5)	(58.8)	(87.7)	774.2	10.7
P/B (x)	0.16	0.21	0.22	0.22	0.21
Dividend Yield (%)	52.9	21.8	2.7	23.4	25.9
Return on average equity (%)	(2.9)	(14.4)	1.7	6.0	7.8
Return on average assets (%)	(1.7)	(7.6)	0.9	3.2	4.2

Source: Company data, RHB

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Property | REITS

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (USD)	-	0.02	0.10	0.01	0.03
Property	EPS (USD)	-	0.02	0.10	0.01	0.03
Prime US REIT	DPS (USD)		0.07	0.03	0.00	0.03
PRIME SP	BVPS (USD)		0.76	0.60	0.55	0.56
Buy	Return on average equity (%)		(2.9)	(14.4)	1.7	6.0
	Weighted avg adjusted shares (m)		1,175.26	1,189.33	1,308.54	1,308.80
						1,309.05
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM	Recurring P/E (x)	na	na	13.28	3.69	2.78
	P/E (x)	na	na	13.28	3.69	2.78
	P/B (x)	0.2	0.2	0.2	0.2	0.2
	FCF Yield (%)	60.8	41.5	24.6	35.7	44.9
	Dividend Yield (%)	52.9	21.8	2.7	23.4	25.9
	EV/EBITDA (x)	-	8.85	6.96	7.99	7.90
	EV/EBIT (x)	-	8.85	6.96	7.99	7.90
Key drivers	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Under-rented portfolio in a good mix of growth markets;	Total turnover	163	160	145	149	158
ii. 100% Class A office buildings;	EBITDA	87	85	74	76	80
iii. Trading at distress valuations.	Operating profit	87	85	74	76	80
	Net interest	(22)	(28)	(30)	(33)	(33)
	Pre-tax profit	(41)	(116)	7	47	64
	Taxation	14	(0)	6	(3)	(5)
	Recurring net profit	(27)	(116)	12	44	58
Key risks	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Continued decline in US office portfolio valuations resulting in potential gearing breach;	Change in working capital	(2.8)	1.0	(11.1)	0.8	1.1
ii. Prolonged work-from-home or WFH trends resulting in continued structural decline in office demand;	Cash flow from operations	89.2	85.6	54.1	71.1	86.3
iii. Regulatory changes and changes to tax efficient structure.	Capex	(0.6)	(24.4)	(14.1)	(13.2)	(13.4)
	Cash flow from investing activities	(30.1)	(24.3)	63.9	(13.1)	(13.4)
	Dividends paid	(76.9)	(64.3)	(4.3)	(37.9)	(42.0)
	Cash flow from financing activities	(61.3)	(61.1)	(124.5)	(79.5)	(64.7)
	Cash at beginning of period	13.9	11.6	11.8	26.3	6.8
	Net change in cash	(2.2)	0.2	(6.5)	(21.5)	8.2
	Ending balance cash	11.6	11.8	26.3	6.8	6.9
Company Profile	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Prime US REIT is a diversified S-REIT with a focus on stabilised income-producing office assets in the US. PRIME offers investors a unique exposure to a high-quality portfolio of 14 prime and freehold office properties, strategically located in 10 primary markets in the US.	Total cash and equivalents	12	12	26	7	7
	Total investments	1,572	1,424	1,332	1,358	1,398
	Total assets	1,589	1,444	1,361	1,368	1,409
	Short-term debt	0	478	0	0	0
	Total long-term debt	666	218	608	601	614
	Total liabilities	695	730	636	632	653
	Shareholders' equity	894	714	726	736	756
	Total equity	894	714	726	736	756
	Net debt	654	685	581	594	607
	Total liabilities & equity	1,589	1,444	1,361	1,368	1,409
Key metrics	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	4.0	(2.0)	(9.1)	2.9	6.0
	Recurrent EPS growth (%)	(137.3)	325.3	0.0	260.5	32.6
	Operating EBITDA margin (%)	53.5	53.2	50.7	50.6	50.3
	Net profit margin (%)	(16.5)	(72.5)	8.4	29.5	36.9
	Dividend payout ratio (%)	(286.6)	(27.8)	35.5	86.1	71.9
	Capex/sales (%)	0.4	15.3	9.7	8.8	8.5
	Interest cover (x)	4.04	3.02	2.47	2.29	2.38

Source: Company data, RHB

Figure 1: One Town Center



Figure 2: Asset occupancy and carrying value

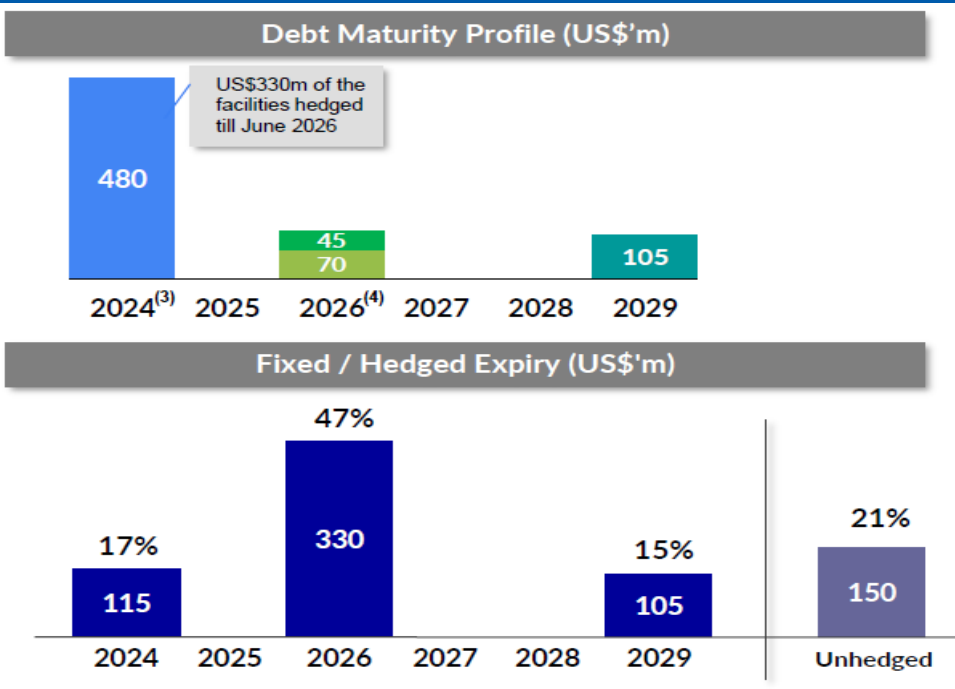
Properties (As at 31 March 2024)	% Contribution by Carrying Value	PRIME's Occupancy	Submarket Occupancy ¹
222 Main (Salt Lake City)	13.0%	99.3%	86.6%
171 17th Street (Atlanta)	12.1%	71.0%	74.4%
Village Center Station II (Denver)	10.3%	100.0%	78.1%
Park Tower (Sacramento)	10.1%	72.7%	90.5%
Sorrento Towers (San Diego)	8.9%	96.3%	93.8%
Tower I at Emeryville (San Francisco Bay Area)	7.4%	75.7%	78.9%
Crosspoint (Philadelphia)	6.6%	100.0%	83.6%
One Town Center (Boca Raton)	6.0%	99.7%	83.6%
Tower 909 (Dallas)	5.3%	90.7%	76.9%
Village Center Station I (Denver)	5.0%	55.1%	78.1%
101 South Hanley (St. Louis)	4.8%	89.5%	83.1%
Promenade I & II (San Antonio)	4.8%	92.0%	89.1%
Reston Square (Suburb Virginia, DC)	1.8%	47.0%	78.2%
Portfolio (exclude asset undergoing enhancement)	96.1%	84.7%	
Asset undergoing Asset Enhancement Initiative			
One Washington Center (Suburb Maryland, DC)	3.9%	33.3%	93.5% ¹
Portfolio (include asset undergoing enhancement)	100.0%	80.9%	

1. CoStar as of 5th April 2024

Source: Company data

Source: Company data

Figure 3: Debt maturity and hedge expiries



Source: Company data

Emissions And ESG

Trend analysis

In 2023, PRIME's operations totalled 24,409 tCO2e of which 95% was attributed to Scope 2 emissions. This represents an 8% decrease greenhouse gas (GHG) emissions over the previous year – partially attributable to lower physical occupancy and management efforts to actively manage energy consumption. Overall water consumption from operations saw a 1.3% YoY reduction for 13 properties (excluding One Town Center).

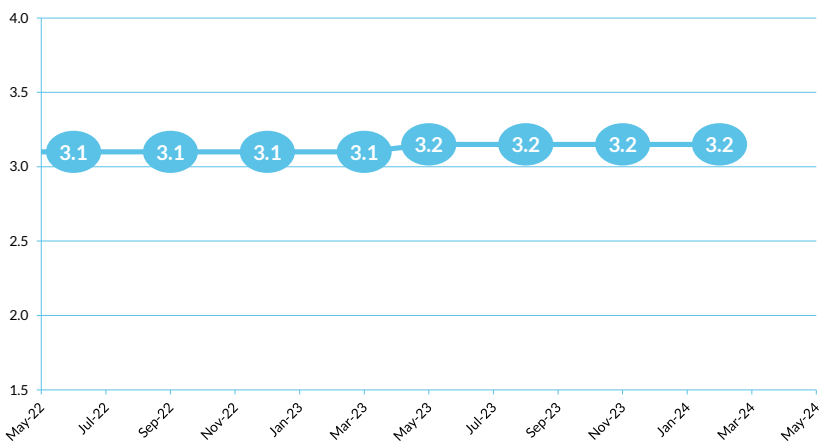
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	1,023	1,162
Scope 2	18,761	25,501	23,247
Scope 3	na	na	na
Total emissions	18,761	26,524	24,409

Source: Company data, RHB

Latest ESG-Related Developments

- In Feb 2023, PRIME partnered with Gridium to achieve significant energy savings and attract ESG-focused tenants. The newly implemented Gridium software combines utility smart meter data, utility bill data, weather data and industry benchmarking into tools to help better manage energy performance.
- PRIME also engaged in various tenant and community activities across its assets in order to improve tenant bonding.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-23	Buy	0.23	0.12
2023-11-08	Buy	0.35	0.14
2023-08-11	Buy	0.40	0.18
2023-05-11	Buy	0.57	0.19
2023-02-09	Buy	0.67	0.45
2022-11-09	Buy	0.77	0.44
2022-08-08	Buy	1.00	0.66
2022-02-17	Buy	1.02	0.75
2021-11-07	Buy	1.04	0.80
2021-08-04	Buy	1.03	0.75
2021-06-24	Buy	1.03	0.80
2021-02-18	Buy	1.00	0.76
2020-12-03	Buy	1.00	0.70

Source: RHB, Bloomberg

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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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