

31 July 2024

Property | REITS

Keppel Pacific Oak US REIT (KORE SP)

Buy (Maintained)

Moving On The Right Track; BUY

Target Price (Return): USD0.29 (42.9%)
 Price (Market Cap): USD0.20 (USD209m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (USD/USD) 0.53m/m

- **Keep BUY and USD0.29 TP, 43% upside.** 1H financials were broadly in line. Key highlights: i) Occupancy improvements and ii) early refinancing of loans expiring in 4Q24/2025, which has substantially de-risked Keppel Pacific Oak US REIT's profile. Management continues to adopt a prudent stance with the likelihood of early resumption of distributions (before 2026) only upon potential divestment. KORE's share price has staged a good recovery recently, and we see some near-term volatility before the next leg of recovery upon commencement of rate cuts.
- **Portfolio occupancy rose 0.4ppts QoQ** to 90.7%, with occupancy improvements seen at the One Twenty Five, Iron Point, and The Westpark Portfolio. Leasing demand strengthened in 1H, with 11% of NLA signed. Demand came from diverse segments, which includes insurance, consulting, and healthcare. Around 7% of leases by rental income are due for renewal in 2H, with some of it being known vacates in 4Q. Management expects this to be backfilled, although there is likely to be a transition period. KORE expects occupancy by end 2024 to be at 86-88% levels. Rent reversion swung back into the black in 2Q at +1.2% from -1.4% in 1Q (1H:-0.3%).
- **Refinanced bulk of loans expiring over the next two years.** Of the USD75m in loans due for renewal in 4Q, KORE has refinanced USD30m for a 3-year term, USD25m has been extended for a year, and management is in discussions for the remaining USD20m. The REIT has also secured a 1-year extension for USD115m in loans expiring in Aug 2025 and is engaging with the banks for the remaining USD40m due next year. The revised all-in average cost of debt came in better than expectations at 4.56% pa vs an estimated 4.75% pa (it is currently at 4.47% pa) with management noting a 20-30bps expansion in margins for new loans.
- **Cautious guidance on early resumption of distribution payments** with management stating that any early dividend payments (before 2026) will hinge upon KORE's ability to divest assets (likely Iron Point and 1800 West Loop, in our view) that would bring gearing lower and provide a comfortable debt cushion. Its current plan is to remain focused on the efficient deployment of withheld distribution on improving its core assets – mainly on building spec suits, tenant incentives, and upgrading amenities that will improve leasing prospects in competitive markets and maintain long-term asset value.
- **No material changes** and we have not factored in any distribution payments till end 2025. Our TP is pegged at 0.4x FY24F P/BV. KORE's 3.1 ESG score is at par with the country median resulting in a 0% ESG premium/discount being added to the TP.

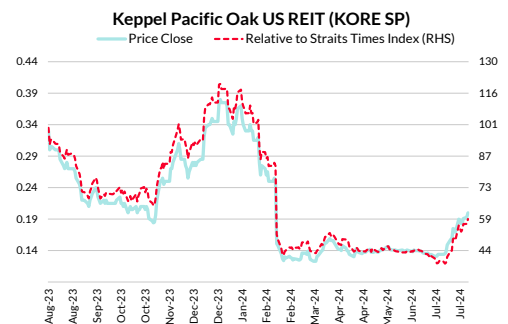
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(46.7)	49.3	46.0	(37.5)	(41.2)
Relative	(52.9)	46.0	41.5	(46.8)	(43.3)
52-wk Price low/high (USD)				0.12	-0.38



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

KORE has made steady progress in emissions reductions in the last few years and is on track towards its target to reduce greenhouse gas (GHG) emissions by 30% by 2030 from 2019. The REIT has developed a 2-year roadmap to progressively implement the Taskforce on Climate-related Disclosures' recommendations.

S: GOOD

High employee engagement score of >80%. In 2023, the manager, together with staff of Keppel Capital, committed about 900 volunteer hours to community initiatives. No work-related injuries or safety incidents were reported in 2023.

G: EXCELLENT

Increasing level of earnings disclosure and timely market updates. Majority independent directors and diverse board members. Well-established corporate governance frameworks relating to board matters.

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)	148	151	145	150	153
Net property income (USDm)	84.3	86.1	85.2	88.3	90.4
Reported net profit (USDm)	48.5	(67.7)	14.0	47.8	46.9
Total distributable income (USDm)	60.6	52.2	48.0	48.2	46.4
DPS (USD)	0.06	0.03	na	na	0.04
DPS growth (%)	(8.6)	(56.9)	(100.0)	0.0	0.0
P/B (x)	0.25	0.29	0.28	0.27	0.27
Dividend Yield (%)	29.0	12.5	na	na	22.2
Return on average equity (%)	5.7	(8.6)	1.9	6.3	6.0
Return on average assets (%)	3.2	(4.6)	1.0	3.3	3.2

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (USD)	0.05	(0.06)	0.01	0.05	0.04
Property	EPS (USD)	0.05	(0.06)	0.01	0.05	0.04
Keppel Pacific Oak US REIT	DPS (USD)	0.06	0.03	-	-	0.04
KORE SP	BVPS (USD)	0.81	0.69	0.71	0.75	0.75
Buy	Return on average equity (%)	5.7	(8.6)	1.9	6.3	6.0
	Weighted avg adjusted shares (m)	1,044.45	1,044.45	1,044.45	1,044.45	1,044.45
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM	Recurring P/E (x)	4.31	na	14.93	4.37	4.45
Key drivers	P/E (x)	4.31	na	14.93	4.37	4.45
i. Portfolio focussed on growth markets with tech and healthcare tenants;	P/B (x)	0.2	0.3	0.3	0.3	0.3
ii. Migration of tenants to suburban and low-cost states will benefit the REIT;	FCF Yield (%)	17.1	18.0	10.8	14.7	34.6
iii. Limited tenant concentration risks.	Dividend Yield (%)	29.0	12.5	-	-	22.2
	EV/EBITDA (x)	(9.03)	(7.01)	(7.38)	(7.70)	(7.53)
	EV/EBIT (x)	(9.03)	(7.01)	(7.38)	(7.70)	(7.53)
Key risks	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. US economy entering a recession accompanied by high interest rates;	Total turnover	148	151	145	150	153
ii. Prolonged structural changes impacting office demand;	EBITDA	78	80	79	82	84
iii. Collapse in office values from lack of financing.	Operating profit	78	80	79	82	84
	Net interest	(19)	(24)	(29)	(31)	(34)
	Pre-tax profit	48	(99)	14	48	47
	Taxation	0	31	0	0	0
	Recurring net profit	48	(68)	14	48	47
Company Profile	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Keppel Pacific Oak US REITs 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 – this is so as to provide sustainable distributions and strong total returns for unit holders.	Change in working capital	2.4	6.3	6.5	1.8	1.3
	Cash flow from operations	79.4	84.2	82.5	80.8	82.3
	Capex	(43.6)	(46.7)	(60.0)	(50.0)	(10.0)
	Cash flow from investing activities	(7.8)	(46.7)	(60.0)	(50.0)	(10.0)
	Dividends paid	(58.0)	(55.1)	0.0	0.0	(46.4)
	Cash flow from financing activities	(59.3)	(58.0)	(27.6)	(32.5)	(57.0)
	Cash at beginning of period	51.0	63.4	43.8	38.9	37.4
	Net change in cash	12.3	(20.5)	(5.1)	(1.7)	15.4
	Ending balance cash	63.3	43.0	38.7	37.2	52.7
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	63	44	39	37	53
	Total investments	1,423	1,326	1,353	1,403	1,413
	Total other assets	27	18	16	16	17
	Total assets	1,520	1,394	1,415	1,465	1,491
	Short-term debt	10	75	40	10	20
	Total long-term debt	567	525	559	589	603
	Total liabilities	673	670	678	680	705
	Shareholders' equity	846	723	737	785	786
	Total equity	846	723	737	785	786
	Net debt	514	556	560	561	570
	Total liabilities & equity	1,520	1,394	1,415	1,465	1,491
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	4.8	1.9	(4.1)	3.6	2.3
	Recurrent EPS growth (%)	(41.0)	(239.7)	0.0	241.4	(1.8)
	Operating EBITDA margin (%)	52.4	53.1	54.8	54.9	55.0
	Net profit margin (%)	32.8	(44.9)	9.7	31.9	30.6
	Dividend payout ratio (%)	124.9	(38.6)	0.0	0.0	98.9
	Capex/sales (%)	29.5	31.0	41.5	33.4	6.5
	Interest cover (x)	4.16	3.25	2.72	2.62	2.46

Source: Company data, RHB

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Figure 1: Portfolio assets occupancy changes

Properties	4Q 2023	1Q 2024	2Q 2024	Performance
The Plaza Buildings	91.5%	90.2%	88.5%	
Bellevue Technology Center	90.7%	90.7%	90.3%	
The Westpark Portfolio	95.9%	96.7%	97.3%	
Great Hills Plaza	100.0%	95.3%	95.3%	
Westech 360	78.0%	70.2%	76.6%	
Westmoor Center	91.9%	94.5%	94.9%	
105 Edgeview	94.6%	93.6%	93.6%	
Bridge Crossing	100.0%	100.0%	100.0%	
1800 West Loop South	86.8%	83.7%	83.2%	
Bellaire Park	87.3%	88.3%	86.4%	
One Twenty Five	92.1%	92.3%	95.0%	
Maitland Promenade I & II	87.7%	91.7%	91.7%	
Iron Point	64.2%	60.0%	65.9%	
Portfolio Committed Occupancy	90.3%	90.1%	90.7%	

Source: Company data

Figure 2: Low Top 10 tenants concentration risks

Top 10 Tenants	Sector	Asset	Location	% of CRI	% of NLA
Comdata Inc	TAMI	Bridge Crossing	Nashville	3.8%	3.9%
BAE Systems ⁽¹⁾	TAMI	Westmoor Center / Westpark	Denver	3.8%	4.8%
Spectrum	TAMI	Maitland Promenade I & II	Orlando	3.2%	2.4%
Gogo Business Aviation	TAMI	105 Edgeview	Denver	3.0%	2.5%
Lear Corporation	TAMI	The Plaza Buildings	Seattle – Bellevue/Redmond	3.0%	1.3%
Meta	TAMI	The Westpark Portfolio	Seattle – Bellevue/Redmond	2.9%	2.6%
TerraPower	TAMI	Bellevue Technology Center	Seattle – Bellevue/Redmond	2.6%	2.0%
Zimvie	TAMI	Westmoor Center	Denver	2.2%	2.2%
United Capital Financial Advisor	Finance & Insurance	One Twenty Five	Dallas	1.9%	1.1%
Bio-Medical Applications	Medical & Healthcare	One Twenty Five	Dallas	1.8%	1.1%
Total				28.2%	23.9%
WALE by NLA					4.4 years
WALE by CRI					4.5 years

Source: Company data

Emissions And ESG

Trend analysis

Scopes 1 and 2 emissions(FY23) declined 9% from 2019 levels and 5% YoY with KORE progressively rolling out energy efficiency upgrades across its buildings. The reduction is commendable considering that this was achieved despite more tenants returned to offices last year post COVID-19.

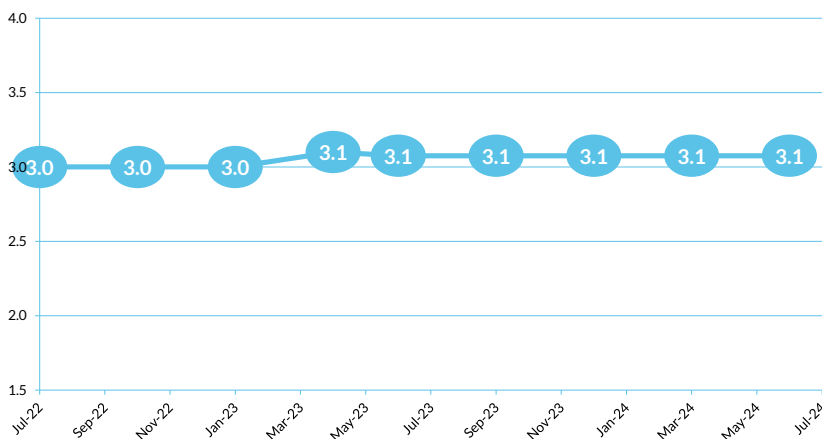
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	601	594	609
Scope 2	3,293	3,333	3,114
Scope 3	23,482	37,996	36,588
Total emissions	27,376	41,923	40,311

Source: Company data, RHB

Latest ESG-Related Developments

- Scope 3 emissions screening exercises were initiated in 2021 and the full inventory of categories of impact were widened to understand the actual scope in the current competitive market conditions.
- KORE has also developed a two-year roadmap to progressively implement the Taskforce on Climate-related Disclosures' recommendations.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-17	Buy	0.29	0.14
2024-02-16	Buy	0.29	0.15
2023-10-19	Buy	0.48	0.21
2023-07-26	Buy	0.56	0.30
2023-06-19	Buy	0.64	0.31
2023-04-19	Buy	0.64	0.36
2023-02-02	Buy	0.69	0.58
2022-10-27	Buy	0.74	0.55
2022-07-27	Buy	0.87	0.69
2022-01-27	Buy	0.92	0.76
2021-09-22	Buy	0.90	0.78
2021-07-27	Buy	0.90	0.80
2021-01-28	Buy	0.84	0.73
2020-10-22	Buy	0.80	0.71
2020-06-07	Buy	0.80	0.73

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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