

21 April 2025

Property | REITS

Keppel Pacific Oak US REIT (KORE SP)

Neutral (from Buy)

Outlook Mired By Rising Uncertainties; D/G NEUTRAL

Target Price (Return): USD0.19 (8.0%)
 Price (Market Cap): USD0.18 (USD187m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (USD/USD) 0.26m/0.26m

- **D/G to NEUTRAL from Buy. Lower TP of USD0.19 from USD0.29, 8% upside.** We believe the increased uncertainties from US President Donald Trump's tariffs policies and higher US recession odds have diminished the near-term US office demand and recovery prospects. This, coupled with the lack of a clear visibility on dividend payout ratio and higher capex demand have dimmed the near-term catalysts for Keppel Pacific Oak US REIT despite trading at a huge >70% discount to book value. 1Q DPU missed expectations on the back of higher free rents during the quarter.
- **Amended trust deed provides KORE flexibility** in determining distribution payout moving forward (between 0% and 100%) vs the previous 90% payout minimum. These changes were approved in the recent EGM with more than 97% votes. The trust deed changes come in light of persistent uncertainties in the US office market, higher capex requirements, as well as challenging bank financing environment. KORE's existing tax efficient structure will not be impacted by the trust deed changes. Key factors that will determine payout ratio moving forward include asset valuations, capex, tenant incentive needs, and normalisation of financing conditions. Management has plans to restore a small payout, potentially earlier by end-2H25 if market conditions stabilise. We have currently assumed a dividend payout of 50%/60% for FY26/27F and none for FY25.
- **Portfolio occupancy remains relatively stable (1Q) at 89.1%** (-0.9ppt QoQ), mainly due to known vacates at Westmoor Centre and Iron Point. There are additional known vacancies coming up at The Plaza buildings, Westmoor, and The Westpark Portfolio but KORE is confident of backfilling and maintained its guidance of a high 80% portfolio occupancy by end-2025. The economic uncertainty from Trump's tariff policies have so far not impacted US office demand and management sees limited impact to its top 10 tenants. However, one of its government lease renewal got delayed from the Department of Government Efficiency's plans to reign in costs, but has since been restored as it caters to critical function. Near-term office demand is likely to pause or slow down in our view from increasing uncertainties although the onshoring of jobs and businesses to US will be a positive long-term demand catalyst.
- **Capex guidance remains unchanged** at c.USD50m for FY25F while KORE guided for USD40-50m capex in FY26 - higher than our earlier expectations. Around USD60m of debt is up for refinancing in 4Q25 for which it is in active negotiations. Financing costs are expected to be at 4.7-4.8% for FY25F.
- **Our revised TP is pegged at c.0.3x FY25F P/BV from 0.4x.** We also lower FY25-26F distributable income 10%/12% after factoring in lower occupancy, margins, and higher interest costs. FY24 sustainability report shows progress in reducing carbon emissions. 0% ESG premium to TP.

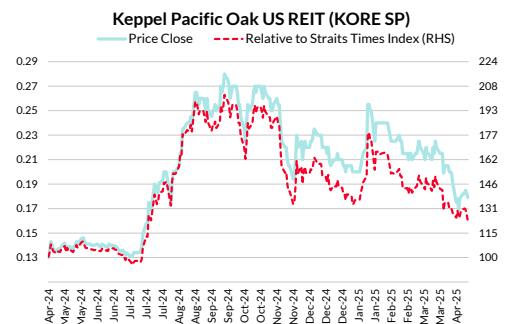
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|--------|--------|--------|--------|-------|
| Absolute | (12.7) | (14.8) | (16.8) | (32.5) | 28.8 |
| Relative | (10.9) | (11.2) | (14.4) | (35.1) | 10.9 |
| 52-wk Price low/high (USD) | | | | 0.13 | -0.28 |



Source: Bloomberg

| Forecasts and Valuation | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
|-----------------------------------|--------|---------|---------|---------|---------|
| Total turnover (USDm) | 151 | 146 | 147 | 152 | 158 |
| Net property income (USDm) | 86.1 | 78.3 | 78.9 | 82.2 | 85.0 |
| Reported net profit (USDm) | (67.7) | (6.9) | 31.8 | 64.1 | 65.6 |
| Total distributable income (USDm) | 52.2 | 47.6 | 42.6 | 43.2 | 43.6 |
| DPS (USD) | 0.03 | na | na | 0.02 | 0.03 |
| DPS growth (%) | (56.9) | (100.0) | 0.0 | 0.0 | 21.1 |
| P/B (x) | 0.26 | 0.26 | 0.25 | 0.24 | 0.23 |
| Dividend Yield (%) | 14.0 | na | na | 11.6 | 14.0 |
| Return on average equity (%) | (8.6) | (1.0) | 4.3 | 8.3 | 8.1 |
| Return on average assets (%) | (4.6) | (0.5) | 2.3 | 4.4 | 4.3 |

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.0 (GOOD)

G Score: 3.3 (EXCELLENT)

Please refer to the ESG analysis on the next page

Note:

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

Emissions And ESG

Trend analysis

Scope 1 and 2 emissions (FY24) declined 18% from 2019 levels and down 3% YoY with KORE progressively rolled out energy efficiency upgrades across its buildings. Scope 3 emissions declined 10% YoY driven by reduction from capital goods. The reduction is commendable considering that this was achieved despite more tenants and employees returning to offices.

| Emissions (tCO2e) | Dec-22 | Dec-23 | Dec-24 | Dec-25 |
|-------------------|--------|--------|--------|--------|
| Scope 1 | 594 | 609 | 600 | na |
| Scope 2 | 3,333 | 3,114 | 3,420 | na |
| Scope 3 | 39,489 | 36,744 | 32,973 | na |
| Total emissions | 43,416 | 40,467 | 36,993 | na |

Source: Company data, RHB

Latest ESG-Related Developments

Continued to roll out Building Automation Systems across properties to optimise energy management and achieved tangible reductions in scope 1 and 2 emissions.

Kore has also developed a two-year roadmap to progressively implement the Taskforce on Climate-related Disclosures (TCFD) recommendations.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 17 April 2025

E Score: 3.0 (GOOD)

KORE has made steady progress in emission reductions in last few years and is on track towards its target to reduce Greenhouse Gas Emissions by 30% by 2030 from 2019. KORE has developed a two-year roadmap to progressively implement the Taskforce on Climate-related Disclosures (TCFD) recommendations.

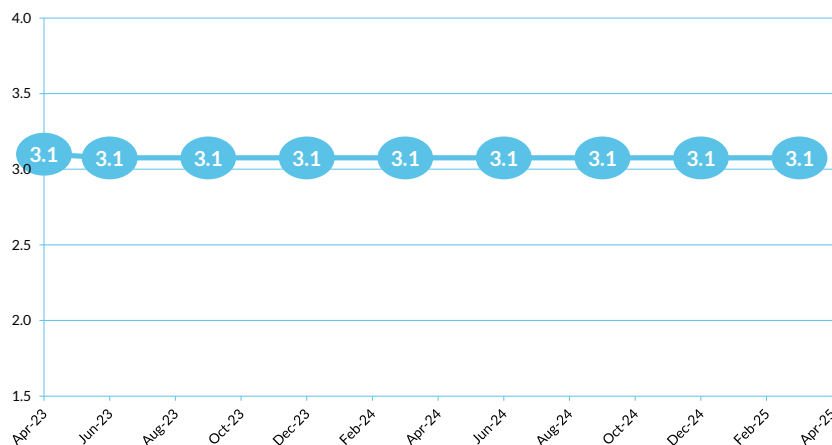
S Score: 3.0 (GOOD)

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 reported in 2023.

G Score: 3.3 (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.

ESG Rating History



Source: RHB

21 April 2025

Property | REITS

Financial Exhibits

| Asia | Financial summary | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS (USD) | (0.06) | (0.01) | 0.03 | 0.06 | 0.06 |
| Property | EPS (USD) | (0.06) | (0.01) | 0.03 | 0.06 | 0.06 |
| Keppel Pacific Oak US REIT | DPS (USD) | 0.03 | - | - | 0.02 | 0.03 |
| KORE SP | BVPS (USD) | 0.69 | 0.69 | 0.72 | 0.76 | 0.79 |
| Neutral | Return on average equity (%) | (8.6) | (1.0) | 4.3 | 8.3 | 8.1 |
| | Weighted avg adjusted shares (m) | 1,044.45 | 1,044.45 | 1,044.45 | 1,044.45 | 1,044.45 |
| Valuation basis | | | | | | |
| DDM | Valuation metrics | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
| | Recurring P/E (x) | na | na | 5.87 | 2.92 | 2.85 |
| | P/E (x) | na | na | 5.87 | 2.92 | 2.85 |
| | P/B (x) | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| | FCF Yield (%) | 20.1 | 11.8 | 12.8 | 20.6 | 30.2 |
| | Dividend Yield (%) | 14.0 | - | - | 11.6 | 14.0 |
| | EV/EBITDA (x) | (7.28) | (7.95) | (8.33) | (8.58) | (8.84) |
| | EV/EBIT (x) | (7.28) | (7.95) | (8.33) | (8.58) | (8.84) |
| Key drivers | | | | | | |
| i. Portfolio focussed on growth markets with tech and healthcare tenants; | | | | | | |
| ii. Migration of tenants to sub-urban and low-cost states will benefit the REIT; and | | | | | | |
| iii. Limited tenant concentration risks. | | | | | | |
| Key risks | | | | | | |
| i. US economy entering into recession accompanied by high interest rates; | | | | | | |
| ii. Prolonged structural changes impacting office demand, and | | | | | | |
| iii. Collapse in office values from lack of financing. | | | | | | |
| Company Profile | | | | | | |
| 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, so as to provide sustainable distributions and strong total returns for unit holders. | | | | | | |
| | Income statement (USDm) | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
| | Total turnover | 151 | 146 | 147 | 152 | 158 |
| | EBITDA | 80 | 73 | 73 | 77 | 79 |
| | Operating profit | 80 | 73 | 73 | 77 | 79 |
| | Net interest | (24) | (26) | (30) | (33) | (35) |
| | Pre-tax profit | (99) | (11) | 33 | 68 | 69 |
| | Taxation | 31 | 4 | (1) | (3) | (4) |
| | Recurring net profit | (68) | (7) | 32 | 64 | 66 |
| | Cash flow (USDm) | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
| | Change in working capital | 6.3 | (0.9) | 0.6 | 1.6 | 1.8 |
| | Cash flow from operations | 84.2 | 74.0 | 74.0 | 78.4 | 81.5 |
| | Capex | (46.7) | (51.9) | (50.0) | (40.0) | (25.0) |
| | Cash flow from investing activities | (46.7) | (51.9) | (50.0) | (40.0) | (25.0) |
| | Dividends paid | (55.1) | 0.0 | 0.0 | (21.6) | (26.2) |
| | Cash flow from financing activities | (58.0) | (23.0) | (26.5) | (43.4) | (49.4) |
| | Cash at beginning of period | 63.4 | 43.8 | 44.2 | 42.9 | 38.6 |
| | Net change in cash | (20.5) | (0.9) | (2.4) | (4.9) | 7.1 |
| | Ending balance cash | 43.0 | 42.9 | 41.8 | 37.9 | 45.7 |
| | Balance sheet (USDm) | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
| | Total cash and equivalents | 44 | 44 | 43 | 39 | 46 |
| | Total investments | 1,326 | 1,326 | 1,370 | 1,437 | 1,491 |
| | Total other assets | 18 | 9 | 9 | 9 | 10 |
| | Total assets | 1,394 | 1,388 | 1,431 | 1,495 | 1,557 |
| | Short-term debt | 75 | 59 | 60 | 65 | 70 |
| | Total long-term debt | 525 | 546 | 555 | 566 | 578 |
| | Total liabilities | 670 | 672 | 683 | 704 | 727 |
| | Shareholders' equity | 723 | 716 | 748 | 791 | 830 |
| | Total equity | 723 | 716 | 748 | 791 | 830 |
| | Net debt | 556 | 561 | 572 | 593 | 602 |
| | Total liabilities & equity | 1,394 | 1,388 | 1,431 | 1,495 | 1,557 |
| | Key metrics | Dec-23 | Dec-24 | Dec-25F | Dec-26F | Dec-27F |
| | Revenue growth (%) | 1.9 | (2.9) | 0.3 | 3.8 | 3.5 |
| | Recurrent EPS growth (%) | (239.7) | (89.8) | 0.0 | 101.3 | 2.3 |
| | Operating EBITDA margin (%) | 53.1 | 49.7 | 49.9 | 50.2 | 50.3 |
| | Net profit margin (%) | (44.9) | (4.7) | 21.7 | 42.0 | 41.6 |
| | Dividend payout ratio (%) | (38.6) | 0.0 | 0.0 | 33.7 | 39.9 |
| | Capex/sales (%) | 31.0 | 35.5 | 34.0 | 26.2 | 15.8 |
| | Interest cover (x) | 3.25 | 2.64 | 2.34 | 2.29 | 2.23 |

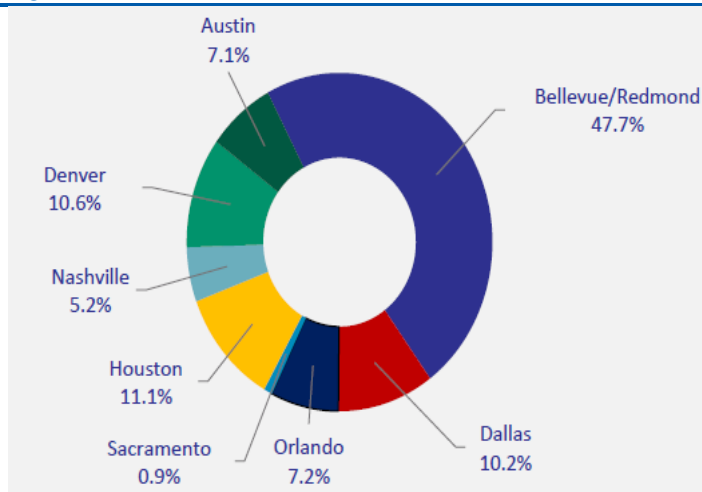
Source: Company data, RHB

Figure 1: Portfolio asset occupancy trends

| Properties | 1Q 2024 | 2Q 2024 | 3Q 2024 | 4Q 2024 | 1Q 2025 | Performance |
|----------------------------|--------------|--------------|--------------|--------------|--------------|-------------|
| The Plaza Buildings | 90.2% | 88.5% | 80.5% | 83.3% | 85.0% | |
| Bellevue Technology Center | 90.7% | 90.3% | 87.3% | 95.6% | 96.1% | |
| The Westpark Portfolio | 96.7% | 97.3% | 93.7% | 92.9% | 94.6% | |
| Great Hills Plaza | 95.3% | 95.3% | 95.3% | 92.1% | 92.1% | |
| Westech 360 | 70.2% | 76.6% | 77.1% | 78.3% | 81.9% | |
| Westmoor Center | 94.5% | 94.9% | 93.8% | 93.8% | 83.2% | |
| 105 Edgeview | 93.6% | 93.6% | 88.9% | 88.9% | 88.9% | |
| Bridge Crossing | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |
| 1800 West Loop South | 83.7% | 83.2% | 85.3% | 83.4% | 82.8% | |
| Bellaire Park | 88.3% | 86.4% | 86.5% | 88.2% | 88.9% | |
| One Twenty Five | 92.3% | 95.0% | 95.4% | 96.5% | 96.3% | |
| Maitland Promenade I & II | 91.7% | 91.7% | 88.2% | 92.8% | 94.9% | |
| Iron Point | 60.0% | 65.9% | 67.2% | 68.9% | 62.3% | |
| Portfolio | 90.1% | 90.7% | 88.7% | 90.0% | 89.1% | |

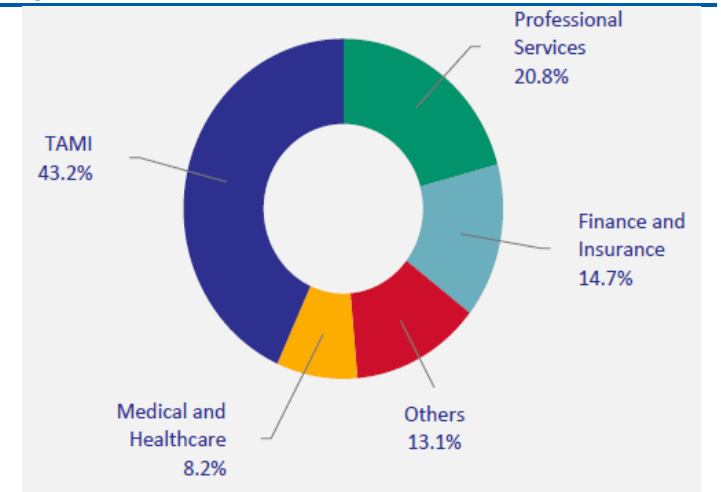
Source: Company data

Figure 2: NPI breakdown by submarkets (1Q)



Source: Company data

Figure 3: Sector Diversification by NLA



Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2025-02-04 | Buy | 0.29 | 0.24 |
| 2024-07-31 | Buy | 0.29 | 0.20 |
| 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 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
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