

16 July 2024

Property | REITS

Prime US REIT (PRIME SP)

Buy (Maintained)

Closing In On Refinancing; BUY

Target Price (Return): USD0.23 (64.7%)
 Price (Market Cap): USD0.14 (USD181m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (USD/USD) 0.38m/m

- **Keep BUY and USD0.23 TP, 65% upside.** Prime US REIT announced that it is in the final documentation stages of its major loan refinancing with a positive outcome expected by end August. A successful refinancing, along with recent asset divestment and likelihood of interest rate cuts, puts the REIT well back on a recovery path after navigating the challenging market conditions of the last three years. With PRIME still trading at 0.25x FY24F P/BV, we believe the recent share price recovery has further legs.
- **PRIME is in the final legal documentation stages of refinancing its USD600m loan**, with three of four lenders in the latter syndicated loan agreeing to close – the last has requested for additional time to finalise internal documentation. In this regard, all four agreed to amend the maturity date of the current facility to 19 Aug (from Jul 2024) to facilitate this request. The loan refinancing has been a key share price overhang amid broad market concerns over bank lenders retreating from US office exposure. While we expect headline interest costs for refinanced loans to be much higher at c.7.5-8.5% on margin spread requirement increases for US office assets, PRIME has in place interest rate swap hedges for USD330m (or c.70% of the USD480m drawn down loan) that extends until Jul 2026. We believe this helps mitigate the overall cost of newly refinanced loans to c.6%. We have assumed overall financing costs for FY24 to be at c.5% (FY23: 4%), increasing to c.5.5% for FY25F-26F.
- **Tail-end of asset devaluation cycle, positive divestment of One Town Center.** The divestment to Miles Capital was completed last week. The asset was sold for USD82m or a c.3% discount to Dec 2023's valuation of USD84.8m. The move will lower pro-forma gearing to 45.8% from 48.4%. With increased market odds of two US federal funds rate cuts by end 2024, we believe further cap rate expansions (if any) are likely to be small and will depend on sub-markets. Hence, we expect PRIME's overall asset value to bottom out by end FY24 and expect a small recovery in FY25. We believe the latest divestment, coupled with likely retention of distributable income, should help bring gearing to a comfortable below 45% level by year's end.
- **Active leading interest** across various key assets with a potential for large lease signing (c.100,000sq ft) at Park Tower, which could substantially boost occupancy. Ongoing asset enhancements at One Washingtonian Center (estimated capex: USD6m) could significantly boost leasing prospects considering its superior location surrounded by amenities.
- **No changes to our earning and TP**, which is pegged at 0.4x FY24F book value. We expect PRIME to distribute only 10% of its income for FY24 – similar to 2H23. An ESG score of 3.2 (out of 4.0) results in a 2% ESG premium.

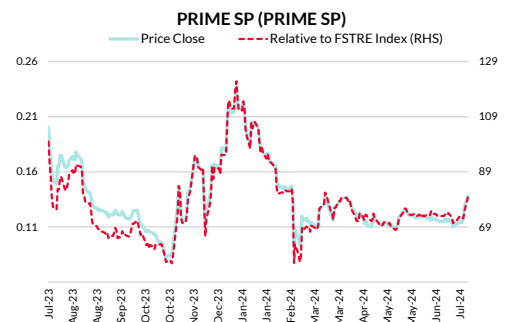
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.7)	17.9	16.9	(31.0)	(29.2)
Relative	(27.9)	12.7	13.7	(24.6)	(18.4)
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 and 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 of high-touch areas. To engage with tenants specifically, the property managers at PRIME's properties regularly hold events with overall well-being in mind, eg Ice Cream Socials, Lemonade Stands, Hot Dog Events, Holiday Breakfasts, Puppy Therapy, Friday Popcorn, and fitness classes.

G: GOOD

Majority independent board and clear delineation of roles between the board and management. Improving stakeholder engagements since listing. 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	42	56
Total distributable income (USDm)	77.1	57.8	43.4	40.7	44.9
DPS (USD)	0.07	0.03	0.00	0.03	0.03
DPS growth (%)	(3.5)	(58.8)	(87.7)	744.8	10.2
P/B (x)	0.18	0.23	0.25	0.25	0.24
Dividend Yield (%)	47.6	19.6	2.4	20.3	22.4
Return on average equity (%)	(2.9)	(14.4)	1.7	5.8	7.6
Return on average assets (%)	(1.7)	(7.6)	0.9	3.1	4.0

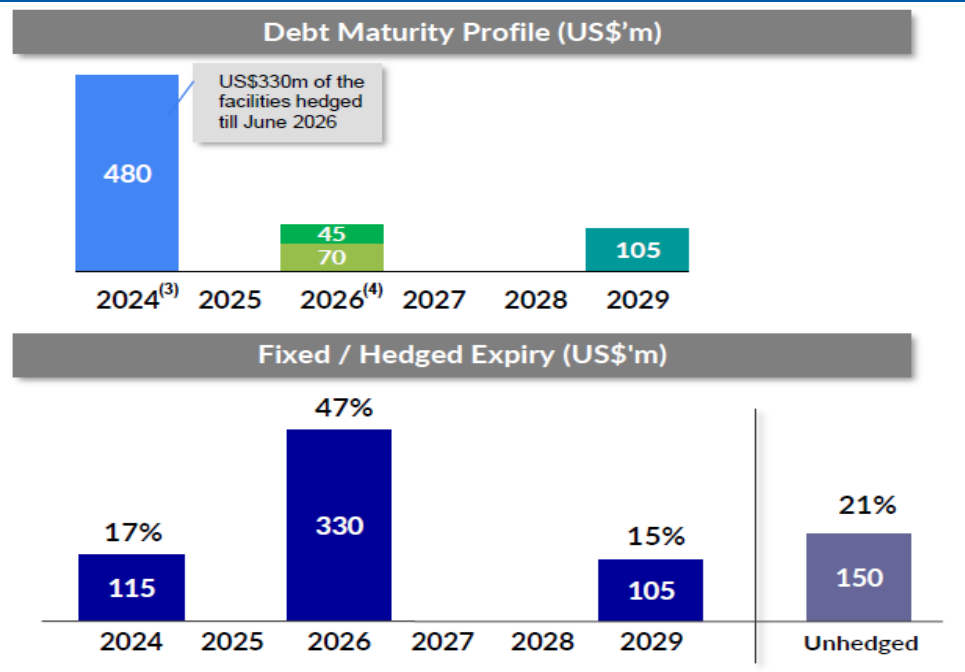
Source: Company data, RHB

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	0.04
Property	EPS (USD)	(0.02)	(0.10)	0.01	0.03	0.04
Prime US REIT	DPS (USD)	0.07	0.03	0.00	0.03	0.03
PRIME SP	BVPS (USD)	0.76	0.60	0.55	0.56	0.58
Buy	Return on average equity (%)	(2.9)	(14.4)	1.7	5.8	7.6
	Weighted avg adjusted shares (m)	1,175.26	1,189.33	1,308.54	1,308.80	1,309.05
Valuation basis						
DDM						
Key drivers	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Under-rented portfolio in a good mix of growth markets;	Recurring P/E (x)	na	na	14.73	4.27	3.21
ii. 100% Class A office buildings;	P/E (x)	na	na	14.73	4.27	3.21
iii. Trading at distress valuations.	P/B (x)	0.2	0.2	0.2	0.2	0.2
	FCF Yield (%)	54.6	37.3	15.9	26.5	36.5
	Dividend Yield (%)	47.6	19.6	2.4	20.3	22.4
	EV/EBITDA (x)	(8.67)	(6.77)	(7.74)	(7.72)	(7.65)
	EV/EBIT (x)	(8.67)	(6.77)	(7.74)	(7.72)	(7.65)
Key risks	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Continued decline in US office portfolio valuations resulting in potential gearing breach;	Total turnover	163	160	145	149	158
ii. Prolonged work-from-home or WFH trends resulting in continued structural decline in office demand;	EBITDA	87	85	74	76	80
iii. Regulatory changes and changes to tax efficient structure.	Operating profit	87	85	74	76	80
	Net interest	(22)	(28)	(30)	(34)	(35)
	Pre-tax profit	(41)	(116)	7	45	62
	Taxation	14	(0)	6	(3)	(5)
	Recurring net profit	(27)	(116)	12	42	56
Company Profile	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Prime US REIT is a diversified Singapore REIT with a focus on stabilised income-producing office assets in the US. The REIT 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.	Change in working capital	(2.8)	1.0	(11.1)	0.8	1.1
	Cash flow from operations	89.2	85.6	54.1	71.2	86.4
	Capex	(0.6)	(24.4)	(25.3)	(23.2)	(20.5)
	Cash flow from investing activities	(30.1)	(24.3)	52.7	(23.2)	(20.4)
	Dividends paid	(76.9)	(64.3)	(4.3)	(36.7)	(40.4)
	Cash flow from financing activities	(61.3)	(61.1)	(125.2)	(52.7)	(56.2)
	Cash at beginning of period	13.9	11.6	11.8	14.3	11.2
	Net change in cash	(2.2)	0.2	(18.5)	(4.7)	9.8
	Ending balance cash	11.6	11.8	14.3	11.2	12.5
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	12	12	14	11	13
	Total investments	1,572	1,424	1,343	1,379	1,427
	Total assets	1,589	1,444	1,361	1,394	1,443
	Short-term debt	0	478	0	0	0
	Total long-term debt	666	218	607	627	649
	Total liabilities	695	730	635	659	688
	Shareholders' equity	894	714	726	735	755
	Total equity	894	714	726	735	755
	Net debt	654	685	592	616	637
	Total liabilities & equity	1,589	1,444	1,361	1,394	1,443
	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	244.7	33.2
	Operating EBITDA margin (%)	53.5	53.2	50.7	50.6	50.3
	Net profit margin (%)	(16.5)	(72.5)	8.4	28.3	35.6
	Dividend payout ratio (%)	(286.6)	(27.8)	35.4	86.8	71.8
	Capex/sales (%)	0.4	15.3	17.5	15.5	12.9
	Interest cover (x)	4.04	3.02	2.48	2.19	2.25

Source: Company data, RHB

Figure 1: Debt maturity and hedge expiries



Source: Company data

Figure 2: One Town Center (recently divested asset)



Source: Company data

Figure 3: Asset OCCUPANCY AND CARRYING VALUE AS AT END FY23

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 Washingtonian 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

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 in 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 too saw a 1.3% YoY reduction for 13 properties (excluding One Town Center).

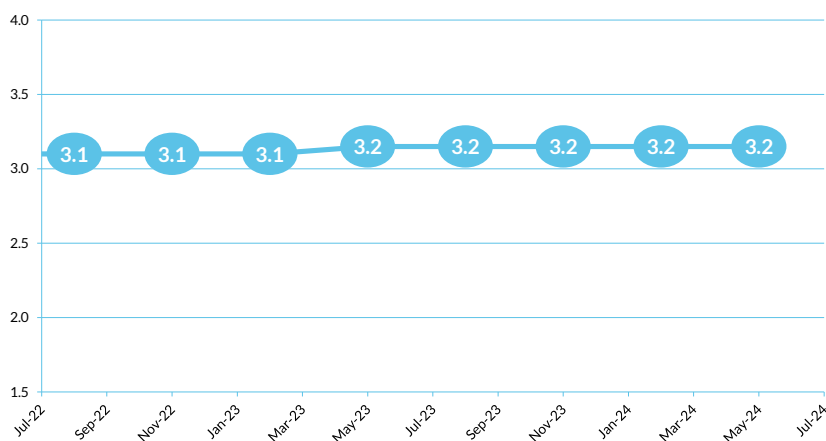
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	na	1,023	1,162
Scope 2	18,761	25,501	23,247
Scope 3	na	na	na
Total emissions	18,761	26,524	24,409

Source: Company data, RHB

Latest ESG-Related Developments

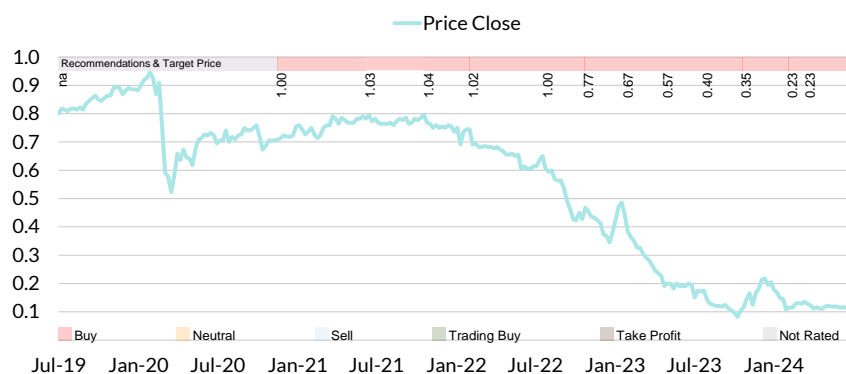
- In Feb 2023, PRIME partnered with Gridium to achieve significant energy savings and attract ESG-focused tenants. The newly implemented Gridium software combines utility smart meter data, utility bill data, weather data, and industry benchmarking into tools to help better manage energy performance.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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-21	Buy	0.23	0.13
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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