

13 May 2022

Property | REITS

## Prime US REIT (PRIME SP)

**Buy** (Maintained)

**A Decent Quarter, Valuations Undemanding; Keep BUY**

Target Price (Return): USD1.02 (45.7%)  
Price (Market Cap): USD0.70 (USD816m)  
ESG score: 3.10 (out of 4)  
Avg Daily Turnover (USD/USD) 0.68m/0.68m

- **Maintain BUY and USD1.02 TP, 46% upside.** Prime US REIT posted decent operational numbers in 1Q which met expectations. The stock has underperformed YTD which we believe is due to misplaced concerns on a prolonged and deep impact to office assets from work from home impact and recession concerns. While risks have increased on the back of persistent inflation and ongoing war, we believe the valuation of 0.8x P/BV and 10% yield are unjustified.
- **1Q estimated DPU up 8% YoY** at 1.79 cents, aided by acquisition contributions, higher parking revenue (+30% YoY), rental growth as well as amortisation of lease termination income. 83% of its portfolio debt remains hedged with a 1% increase in interest rates resulting in a minimal c.1.4% impact to DPU. The impact of utility charges is expected to be marginal as it is mostly recovered from tenants on a usage basis.
- **Expect occupancy volatility but leasing momentum remains promising so far.** Portfolio occupancy (1Q) dipped slightly by 0.4ppt QoQ to 89.9% but management noted it has since improved back to more than 90%, with the signing of new leases in 2Q. Leasing velocity was strong and broad based in 1Q at c.171k sqft of leases signed (41% of FY21) and additional 46k sqft signed in April - despite the Omicron wave - showing healthy demand for its assets. 32% of these leases were new leases, higher than 21% for last year which is another sign of tenants returning to market. Notable occupancy drop in the quarter was at Tower 1 at Emeryville (58.9%) where WeWork and another tenant have left the premises. In 2Q another key tenant - Whitney, Bradley & Brown (2.6% of income) - will leave Reston Square after being acquired. Management continues to see active interest for vacated spaces in the market and expects overall occupancy to improve by year end barring unforeseen circumstances.
- **Positive rent growth to continue.** Rent reversion (1Q) stood at 3.4% and - including leases signed in April - stands at +6%. Overall asking rents are still 6% below market therefore full year rent reversion is expected to remain positive in low to mid-single digits.
- **Acquisition still on cards** although its weak share price may hamper the possibility of equity fund raisings. Gearing is modest at 39.1%. Cap rates in target markets are still in the range of 5.5% to 7%. We foresee a possibility of USD100-200m of acquisitions in 2H if market conditions stabilise.
- **No earnings changes, ESG score of 3.1 out of 4.0** based on our proprietary in-house methodology. As this score is one notch above our country median score, we applied a 2% premium to our intrinsic value.

### Analysts

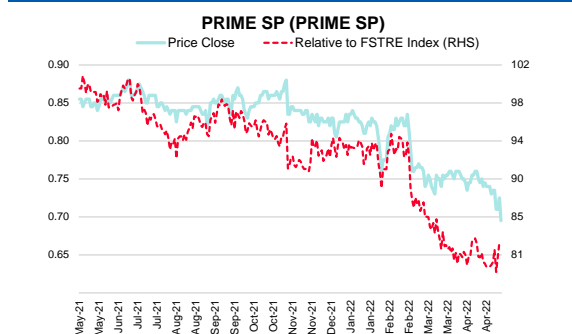
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.8)	(6.7)	(15.3)	(17.8)	(18.7)
Relative	(14.9)	(3.1)	(14.3)	(13.5)	(20.5)
52-wk Price low/high (USD)	0.70 – 0.88				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	144	157	169	174	180
Net property income (USDm)	95	101	108	111	115
Reported net profit (USDm)	23.2	68.2	69.8	95.0	97.5
Total distributable income (USDm)	72.1	75.6	82.8	84.9	87.1
DPS (USD)	0.07	0.07	0.07	0.07	0.07
DPS growth (%)	119.8	(2.0)	3.2	1.8	1.8
P/B (x)	0.80	0.78	0.83	0.82	0.82
Dividend Yield (%)	10.0	9.8	10.1	10.3	10.5
Return on average equity (%)	2.7	7.2	7.1	9.6	9.6
Return on average assets (%)	1.7	4.4	4.1	5.5	5.5

Source: Company data, RHB

### Overall ESG Score: 3.10 (out of 4)

#### E: EXCELLENT

11 out of the 12 properties in PRIME's portfolio are U.S. Green Building Council Leadership in Energy and Environmental Design ("LEED") or Energy Star certified. Prime 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 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

Improving stakeholder engagements since listing. Greater details in earnings quality as well as market outlook and update disclosures. Clear delineation of roles between the Board and Management

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS (USD)	0.02	0.06	0.06	0.08	0.08
Property	EPS (USD)	0.02	0.06	0.06	0.08	0.08
<b>Prime US REIT</b>	DPS (USD)	0.07	0.07	0.07	0.07	0.07
PRIME SP	BVPS (USD)	0.87	0.89	0.84	0.84	0.85
Buy	Return on average equity (%)	2.7	7.2	7.1	9.6	9.6
	Weighted avg adjusted shares (m)	1,039.00	1,111.62	1,179.57	1,188.98	1,198.65
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
DDM	Recurring P/E (x)	31.11	11.33	11.74	8.70	8.55
	P/E (x)	31.11	11.33	11.74	8.70	8.55
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	FCF Yield (%)	12.1	11.7	11.3	11.5	13.0
	Dividend Yield (%)	10.0	9.8	10.1	10.3	10.5
	EV/EBITDA (x)	-	2.81 -	2.33 -	2.48 -	2.61
	EV/EBIT (x)	-	2.81 -	2.33 -	2.48 -	2.61
<b>Key drivers</b>	<b>Income statement (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
I. Under-rented portfolio in growth markets with a well diverse tenant base;	Total turnover	144	157	169	174	180
II. Inbuilt rent escalations providing organic growth; and	EBITDA	85	91	97	100	103
III. Modest gearing present inorganic growth potential via. acquisitions	Operating profit	85	91	97	100	103
	Net interest	(15)	(17)	(17)	(18)	(19)
	Pre-tax profit	25	73	70	105	108
	Taxation	(2)	(5)	0	(10)	(10)
	Recurring net profit	23	68	70	95	97
<b>Key risks</b>	<b>Cash flow (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
I. Unexpected sharp spike in interest rates and economy faltering;	Change in working capital	4	2	10	1	1
II. Rising WFH trends resulting in steep decline in office demand; and	Cash flow from operations	90	96	109	112	126
III. Regulatory changes and changes to tax efficient structure	Capex	(2)	(6)	(17)	(17)	(17)
	Cash flow from investing activities	(176)	(260)	(17)	(17)	(17)
	Dividends paid	(65)	(69)	(83)	(85)	(87)
	Cash flow from financing activities	86	141	(85)	(81)	(85)
	Cash at beginning of period	38	37	14	21	23
	Net change in cash	(0)	(24)	8	14	23
	Ending balance cash	37	14	21	23	23
<b>Company Profile</b>	<b>Balance sheet (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Prime US REIT ("PRIME") is a diversified Singapore real estate investment trust ("REIT") with a focus on stabilised income-producing office assets in the U.S. PRIME offers investors a unique exposure to a high-quality portfolio of 14 prime and freehold office properties, strategically located in ten primary markets in the U.S.	Total cash and equivalents	37	14	21	23	23
	Total investments	1,405	1,655	1,670	1,720	1,771
	Total assets	1,447	1,673	1,695	1,747	1,800
	Total long-term debt	480	629	646	669	692
	Total liabilities	539	682	709	744	778
	Shareholders' equity	908	991	986	1,004	1,021
	Total equity	908	991	986	1,004	1,021
	Net debt	443	615	625	646	669
	Total liabilities & equity	1,447	1,673	1,695	1,747	1,800
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	136.7	9.2	7.9	3.0	3.3
	Recurrent EPS growth (%)	(38.7)	174.6	(3.5)	35.0	1.7
	Operating EBITDA margin (%)	59.5	58.0	57.1	57.2	57.3
	Net profit margin (%)	16.2	43.5	41.3	54.5	54.1
	Dividend payout ratio (%)	310.6	110.9	118.6	89.4	89.4
	Capex/sales (%)	1.7	3.5	9.8	9.6	9.6
	Interest cover (x)	5.74	5.35	5.65	5.52	5.32

Source: Company data, RHB

Figure 1: DDM valuation table

	FY21F	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (USD Cts)	7.02	7.14	7.27	7.28	7.43	108.7
Intrinsic Value (USD)	1.00					
ESG Premium/(discount)	0.02					
<b>Target Price (USD)</b>	<b>1.02</b>					
Current Price (USD)	0.70					
Price Upside (%)	45.7%					
Distribution Yield FY19F (%)	10.1%					
Total Return (%)	55.8%					
<b>Assumptions</b>						
Risk-free rate (%)	3%					
Beta	1.0					
Cost of equity (%)	9.0%					
Terminal growth (%)	2%					

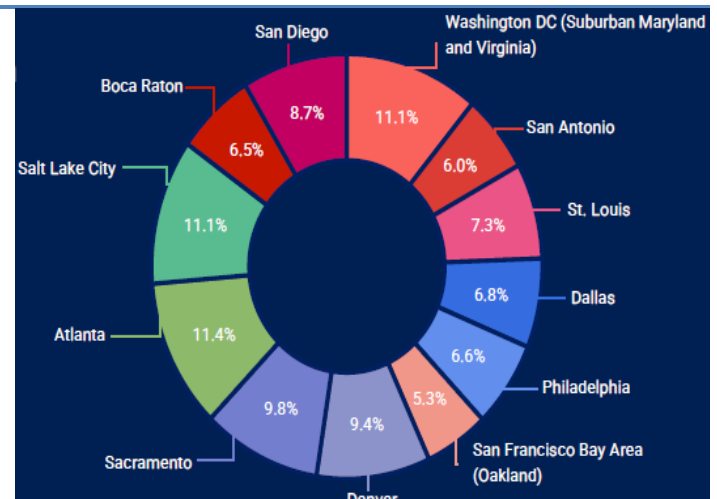
Source: RHB

Figure 2: Assets occupancy, WALE and rents

Name of Property	Annual In Place Rent (US\$)	Annual Asking Rent (US\$)	Potential Rental Reversion	WALE	Occupancy	Lease expiry through 2022 by CR <sup>(1)</sup>
Tower I at Emeryville	\$55.63	\$55.80	0.3%	2.1	58.9%	0.4%
222 Main	\$38.87	\$38.87	0.0%	4.5	95.8%	0.1%
Village Center Station I	\$23.67	\$23.50	-0.7%	1.6	64.9%	0.0%
Village Center Station II	\$24.70	\$24.00	-2.8%	6.3	100.0%	0.0%
101 South Hanley	\$29.02	\$31.50	8.6%	3.4	95.3%	0.8%
Tower 909	\$29.52	\$33.20	12.5%	3.5	86.7%	0.9%
Promenade I & II	\$28.20	\$28.50	1.1%	2.7	98.6%	0.0%
CrossPoint	\$34.41	\$39.00	13.3%	3.2	100.0%	1.6%
One Washingtonian Center	\$36.92	\$36.50	-1.1%	2.8	79.1%	0.2%
Reston Square	\$43.65	\$37.00	-15.2%	1.9	100.0%	2.6%
171 17th Street	\$28.74	\$28.00	-2.6%	5.9	91.9%	0.6%
Park Tower	\$32.74	\$40.50	23.7%	4.0	88.3%	1.7%
One Town Center	\$33.18	\$37.00	11.5%	5.5	96.4%	0.0%
Sorrento Towers	\$39.76	\$46.42	16.8%	5.9	98.1%	0.7%
<b>Total / Weighted Average</b>	<b>\$33.13</b>	<b>\$35.11</b>	<b>6.0%</b>	<b>4.1</b>	<b>89.9%</b>	<b>9.5%</b>

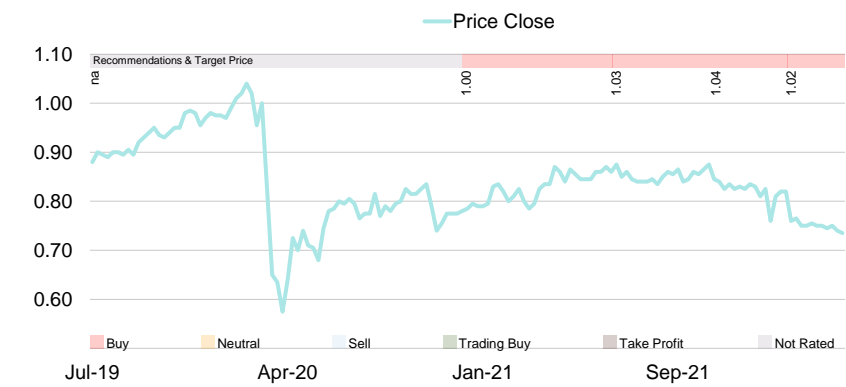
Source: Company data

Figure 3: No single market accounts for &gt;12% of rental income



Source: Company data

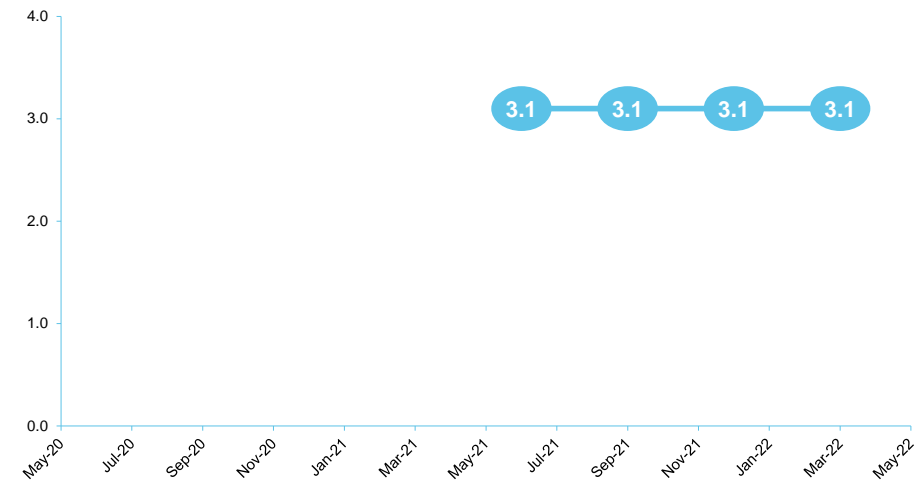
Recommendation Chart



Date	Recommendation	Target Price	Price
2022-02-17	Buy	1.02	0.82
2021-11-07	Buy	1.04	0.88
2021-06-24	Buy	1.03	0.88
2020-12-03	Buy	1.00	0.77

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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