

9 February 2023

Property | REITS

Prime US REIT (PRIME SP)

Buy (Maintained)

Waiting For Spring; Maintain BUY

Target Price (Return): USD0.67 (+28%)
 Price (Market Cap): USD0.53 (USD621m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (USD/USD) 0.81m/0.81m

- **Stay BUY, revised TP of USD0.67 from USD0.77, 28% upside and 11% yield.** 2H/FY22 DPU came in slightly below expectations, and the portfolio valuation decline of 6.7% was at the lower end of our anticipated range. However, rent reversions remained strong, with occupancy showing signs of stabilising. We expect share price reaction to the results to be neutral, as the negatives are mostly priced in. Gearing remains within regulatory limits, and its relatively well-hedged debt position shields from rate hikes.

- **2H DPU down 12.2%YoY**, hit by the absence of termination income, lower occupancy, and higher finance costs. Overall (FY22) DPU fell 3.4% YoY – coming in at 95% of our full-year forecasts. Portfolio value declined 6.7% YoY on the back of higher discount and cap rate assumptions by valuers (vs our expectations of a 5-7% decline). All assets saw declines in value, with the biggest percentage drop coming from Reston Square (-14.2%, due to the exit of an anchor tenant), Village Center Station I (-12.1%), and One Town Center (-10.6%).

- **Occupancy volatility likely...** Overall portfolio occupancy was relatively stable at 89.1% (0.5ppts QoQ). Moving ahead, we expect some occupancy volatility (+/-3% from current levels) with [media reports](#) stating that PRIME's third-largest tenant Sodexo is likely to leave One Washingtonian Center to a new development in the nearby area by end of the year. Besides this, no other asset has a significant near-term major lease expiring. Our view is that US office market conditions are likely to bottom by 1H23, with easing COVID-19 concerns and recessionary fears, bringing employees back to the office and providing greater clarity on hybrid work arrangements to employers. This is evidenced by the increase in return-to office trends, with nearly 60% of employees now expected to fully return to the office.

- **...but should be mitigated by positive reversions.** PRIME's portfolio remains under-rented with blended average asking rents 6.3% higher than passing rents. Testament to this has been the 11th straight positive quarter of rent reversion in 4Q (+20.2%), with increase in overall leasing activity.

- **Gearing is at 42.1%**, up from 37.9% as at end 2021, mainly due to asset value decline but remains well within the comfortable 45% limit. Its interest cover also remains healthy at 4.1x and despite rising rates, we expect it to stay >3x. About 82% of its debt is hedged with no refinancing needed until Jul 2024 – every 1% increase in rates is expected to impact DPU by <4%. Additionally, 65% of its debt hedges are in place until mid-2026 and beyond, thus shielding it from potential extended periods of high interest rates.

- **We lower FY23F-24F DPU by -13% and -12%**, adjusting occupancy and financing costs. Our ESG score of 3.1 out of 4.0 is one notch above the country median, and therefore, we apply a 2% premium to our intrinsic value.

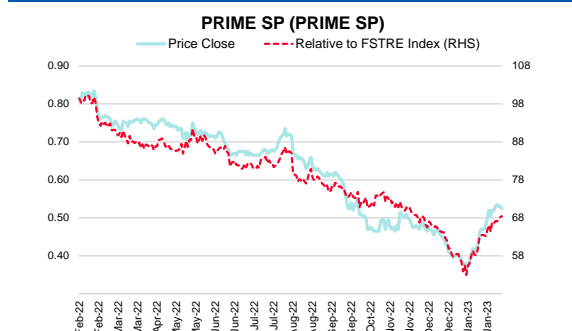
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.6	38.2	12.9	(27.1)	(35.6)
Relative	24.5	32.9	1.5	(20.5)	(31.2)
52-wk Price low/high (USD)				0.37 – 0.84	



Source: Bloomberg

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	157	163	158	164	173
Net property income (USDm)	101	98	95	98	103
Reported net profit (USDm)	68.2	(26.9)	52.3	64.9	67.8
Total distributable income (USDm)	75.6	77.1	68.8	70.6	73.6
DPS (USD)	0.07	0.07	0.06	0.06	0.06
DPS growth (%)	(2.0)	(3.5)	(12.2)	1.9	3.5
P/B (x)	0.59	0.69	0.71	0.71	0.71
Dividend Yield (%)	13.0	12.5	11.0	11.2	11.6
Return on average equity (%)	7.2	(2.9)	5.9	7.3	7.6
Return on average assets (%)	4.4	(1.7)	3.3	4.0	4.1

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (USD)	0.06	-	0.02	0.04	0.05
Property	EPS (USD)	0.06	-	0.02	0.04	0.05
Prime US REIT	DPS (USD)	0.07	0.07	0.06	0.06	0.06
PRIME SP	BVPS (USD)	0.89	0.76	0.74	0.74	0.74
Buy	Return on average equity (%)	7.2	(2.9)	5.9	7.3	7.6
	Weighted avg adjusted shares (m)	1,111.62	1,175.26	1,194.30	1,202.58	1,211.11
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	8.56	na	12.00	9.74	9.38
	P/E (x)	8.56	na	12.00	9.74	9.38
	P/B (x)	0.6	0.7	0.7	0.7	0.7
	FCF Yield (%)	15.5	14.4	11.0	13.1	14.4
	Dividend Yield (%)	13.0	12.5	11.0	11.2	11.6
	EV/EBITDA (x)	-	5.01	-	3.44	-
	EV/EBIT (x)	-	5.01	-	3.44	-
Key drivers						
i. Under-rented portfolio in growth markets with a well diverse tenant base;						
ii. Inbuilt rent escalations providing organic growth;						
iii. Strong sponsor and major shareholders.						
Key risks	Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. US economy faltering into deep recession;	Total turnover	157	163	158	164	173
ii. Rising WFH trends resulting in continued structural decline in office demand;	EBITDA	91	87	85	88	93
iii. Regulatory changes and changes to tax efficient structure.	Operating profit	91	87	85	88	93
	Net interest	(17)	(22)	(23)	(24)	(25)
	Pre-tax profit	73	(41)	52	70	73
	Taxation	(5)	14	0	(5)	(5)
	Recurring net profit	68	(27)	52	65	68
Company Profile	Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Prime US REIT (PRIME) is a diversified Singapore real estate investment trust (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 ten primary markets in the U.S.	Change in working capital	2	(3)	4	2	2
	Cash flow from operations	96	89	84	98	107
	Capex	(6)	(1)	(15)	(16)	(16)
	Cash flow from investing activities	(260)	(30)	(15)	(16)	(16)
	Dividends paid	(69)	(77)	(69)	(71)	(74)
	Cash flow from financing activities	141	(61)	(78)	(74)	(78)
	Cash at beginning of period	37	14	12	14	16
	Net change in cash	(23)	(2)	(10)	8	14
	Ending balance cash	14	12	14	16	20
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	14	12	14	16	20
	Total investments	1,655	1,572	1,588	1,619	1,651
	Total assets	1,673	1,589	1,605	1,638	1,674
	Total long-term debt	629	666	681	704	727
	Total liabilities	682	695	717	746	777
	Shareholders' equity	991	894	887	892	897
	Total equity	991	894	887	892	897
	Net debt	615	654	667	687	708
	Total liabilities & equity	1,673	1,589	1,605	1,638	1,674
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	9.2	4.0	(3.3)	4.3	5.2
	Recurrent EPS growth (%)	174.6	(137.3)	0.0	23.3	3.8
	Operating EBITDA margin (%)	58.0	53.5	54.1	53.8	53.8
	Net profit margin (%)	43.5	(16.5)	33.2	39.5	39.2
	Dividend payout ratio (%)	110.9	(286.6)	131.7	108.9	108.5
	Capex/sales (%)	3.5	0.4	9.8	9.5	9.2
	Interest cover (x)	5.35	4.04	3.74	3.70	3.65

Source: Company data, RHB

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Figure 1: DDM valuation table

	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (US cents)	5.76	5.87	6.08	6.19	6.33	73.5
Intrinsic Value (USD)	0.66					
ESG Premium/(discount)	0.01					
Target Price (USD)	0.67					
Current Price (USD)	0.53					
Price Upside (%)	28.0%					
Distribution Yield FY19F (%)	11.0%					
Total Return (%)	39%					
Assumptions						
Risk-free rate (%)	3%					
Beta	1.01					
Cost of equity (%)	10.8%					
Terminal growth (%)	2%					

Source: RHB

Figure 2: Asset valuation changes

Properties (As at 31 Dec 2022)	Primary Market, State	% Asset Carrying Value	Valuation Dec-22 (US\$m) ¹	Valuation Dec-21 (US\$m) ¹	% Change	Cap Rate Dec-22
222 Main	Salt Lake City, Utah	13.4%	206.3	228.0	(9.5%)	6.25%
171 17th Street	Atlanta, Georgia	12.3%	190.4	200.0	(4.8%)	6.25%
Sorrento Towers	San Diego, California	9.6%	148.5	149.0	(0.3%)	6.00%
Park Tower	Sacramento, California	9.5%	146.8	157.6	(6.9%)	7.25%
Village Center Station II	Denver, Colorado	9.3%	143.3	156.0	(8.1%)	5.75%
Tower I at Emeryville	San Francisco Bay Area, California	7.2%	111.1	115.0	(3.4%)	6.25%
Crosspoint	Philadelphia, Pennsylvania	6.6%	101.6	102.0	(0.4%)	6.75%
One Town Center	Boca Raton, Florida	5.9%	90.3	101.0	(10.6%)	6.25%
One Washingtonian Center	Suburban Maryland, Washington D.C.	5.4%	83.6	92.5	(9.6%)	7.25%
Tower 909	Dallas, Texas	4.9%	76.0	81.6	(6.9%)	7.00%
Promenade I & II	San Antonio, Texas	4.7%	71.8	74.9	(4.1%)	7.50%
Village Center Station I	St. Louis, Missouri	4.6%	71.2	81.0	(12.1%)	6.25%
101 South Hanley	Denver, Colorado	4.6%	71.2	79.3	(10.2%)	8.25%
Reston Square	Suburban Virginia, Washington D.C.	2.0%	30.1	35.1	(14.2%)	6.75%
Total/Weighted Average		100.0%	1,542.2	1,653.0	(6.7%)	6.56%

Source: Company

Figure 3: Average rents are c.6% below asking rents

Properties (As at 31 December 2022)	Primary Market, State	% Asset Carrying Value	Occu- pancy	WALE (years)	% Lease expiry remaining in 2023 by CR ¹	Annual In Place Rent (US\$)	Annual Asking Rent (US\$)	Potential Rental Reversion
222 Main	Salt Lake City, Utah	13.4%	96.2%	4.0	1.3%	\$39.97	\$39.50	-1.2%
171 17th Street	Atlanta, Georgia	12.3%	95.0%	5.4	1.9%	\$29.19	\$29.50	+1.1%
Sorrento Towers	San Diego, California	9.6%	97.2%	5.3	0.4%	\$41.34	\$49.80	+20.5%
Park Tower	Sacramento, California	9.5%	86.1%	3.5	0.9%	\$33.99	\$37.15	+9.3%
Village Center Station II	Denver, Colorado	9.3%	100.0%	5.5	-	NA ²	NA ²	NA ²
Tower I at Emeryville	San Francisco Bay Area, California	7.2%	76.1%	4.2	1.1%	\$51.84	\$55.15	+6.4%
CrossPoint	Philadelphia, Pennsylvania	6.6%	97.1%	5.7	1.2%	\$38.02	\$42.00	+10.5%
One Town Center	Boca Raton, Florida	5.9%	98.8%	4.8	0.4%	\$35.71	\$39.50	+10.6%
One Washingtonian Center	Suburban Maryland, Washington D.C.	5.4%	82.3%	2.0	5.6%	\$36.50	\$36.50	0.0%
Tower 909	Dallas, Texas	4.9%	88.2%	3.5	0.8%	\$33.08	\$35.90	+8.5%
Promenade I & II	San Antonio, Texas	4.7%	85.2%	2.3	-	\$28.72	\$31.00	+7.9%
101 South Hanley	St. Louis, Missouri	4.6%	96.1%	3.5	0.7%	\$29.53	\$31.00	+5.0%
Village Center Station I	Denver, Colorado	4.6%	68.7%	1.7	0.9%	\$24.65	\$25.50	+3.4%
Reston Square	Suburban Virginia, Washington D.C.	2.0%	46.1%	2.9	0.1%	\$40.26	\$38.00	-5.6%
Total / Weighted Average		100.0%	89.1%	4.1	15.3%	\$35.00²	\$37.22²	+6.3%²

[1] Lease expiry excludes month to month leases accounting for 2.1% of CRI
[2] Excludes Village Center Station II which is fully leased until 2028

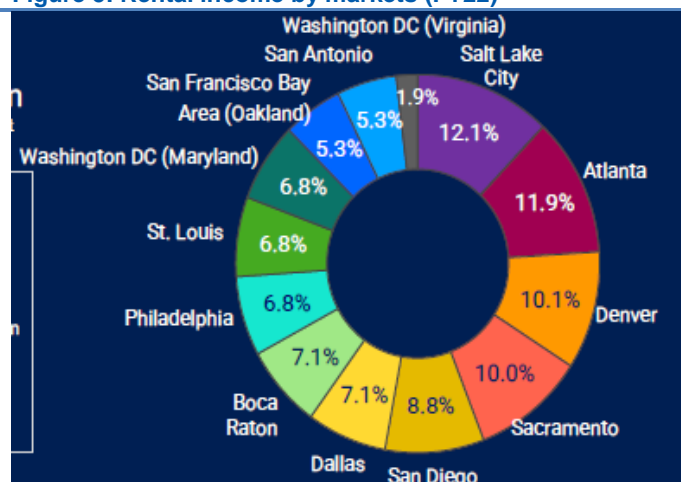
Source: Company

Figure 4: Various debt maturities

Facilities 31 Dec 2022	Lender	Tranches	Facility Available (US\$m)	Outstanding Principal (US\$m)	Hedged/ Fixed	Loan Maturity
Main Credit Facility - Floating	Syndicate led by Bank of America	Term Loan 1 and 2	Total: 400 200 each	Total: 400 200 each	US\$330m Hedged Till Jun-2026 US\$70m: Unhedged	TL1: Jul-2023 (Extendable to 2024) TL2: Jul-2024
		Revolver	200	49	Unhedged	Jul-2023 Extendable to 2024
Total Main Credit Facility			600	449		
Fixed (Secured)	MetLife	Fixed Rate Loan	105	105	Fixed Rate	Aug-2029
Total Fixed MetLife Loan			105	105		
One Town Center - Secured Floating	Citizens Bank	Term Loan	45	45	Hedged Till Jul-2024	Jul-2024 Two one-year extension options Fully extended maturity in Jul-2026
Sorrento Tower - Secured Floating		Revolver	20	-	-	
		Term Loan	70	70	Hedged Till Jul-2024	
		Revolver	25	-	-	
Total Citizens Loans			160	115		
			865	669		

Source: Company

Figure 5: Rental income by markets (FY22)



Source: Company

Recommendation Chart

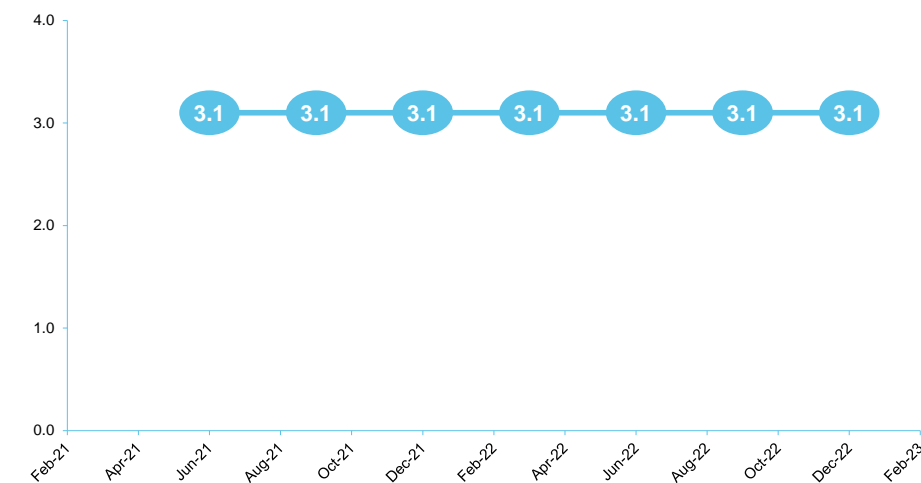


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-09	Buy	0.77	0.48
2022-08-08	Buy	1.00	0.72
2022-02-17	Buy	1.02	0.82
2021-11-07	Buy	1.04	0.88
2021-08-04	Buy	1.03	0.83
2021-06-24	Buy	1.03	0.88
2021-02-18	Buy	1.00	0.83
2020-12-03	Buy	1.00	0.77

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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