

COMPANY UPDATE

Parkway Life REIT (PREIT SP)

Comprehensive Strategic Collaboration That Surpasses Our Expectations

PREIT's strategic collaboration with sponsor IHH Healthcare is comprehensive, encompassing the extension of master leases, renewal capex and ROFR to acquire Mount Elizabeth Novena Hospital. Cumulatively, total rental growth is 39.4% in Year 4 of the new 20-year lease term and exceeds our expectations. The package is accretive to DPU by 32% and NAV per share by 26% in 2026 (Year 4). Unit price performance has been spectacular, gaining 23.3% ytd. Downgrade to HOLD. Target price: S\$4.72.

WHAT'S NEW

- **Comprehensive package that fosters future collaborations.** Parkway Life REIT (PREIT) has extended its strategic collaboration with sponsor IHH Healthcare:
 - Extension for 20 years with sizeable step-up in rents.** PREIT has entered into a lease framework agreement for the extension of master leases of its three Singapore hospitals, namely Mount Elizabeth Hospital, Gleneagles Hospital and Parkway East Hospital. The initial rent for 2023 is S\$97.2m, supported by rental valuations conducted by CBRE and Knight Frank. Cumulatively, total rental growth is 39.4% for Year 4 of the 20-year lease term. Rental escalation is set at CPI + 1% from Year 4 to Year 20. PREIT's WALE has increased from 5.7 years to 16.6 years. There is also an option to renew for a further 10 years (2043 to 2052).
 - Renewal that enhances capital values.** PREIT will invest S\$150m (cap) in one-time renewal capex to renovate and upgrade the three Singapore hospitals to enhance operational efficiency. Lessee Parkway Singapore Hospitals would be able to increase utilisation of available space and increase its number of hospital beds, operating theatres, medical clinics and laboratory facilities. The renewal capex and expenses incurred to conduct the feasibility study will be financed by external borrowings.
The renewal is estimated to take three years with work expected to commence in Jan 23. PREIT will grant a total rental rebate of S\$60.9m during 2023 to 2025.
 - Potential injection of Mount Elizabeth Novena Hospital.** PREIT is granted the right of first refusal (ROFR) to acquire the hospital block of Mount Elizabeth Novena Hospital for a period of 10 years.
- The new master lease agreement and renewal capex agreement is subject to approval from unitholders during an EGM to be convened in due course.

NEW MASTER LEASE AGREEMENT

	Year 15 of Existing Term 23 Aug 21 to 22 Aug 22	Interim Period 23 Aug 22 to 31 Dec 22	Year 1 2023	Year 2 2024	Year 3 2025	Year 4 2026	Year 5 to Year 20 2027 to 2042
Initial Rent (S\$m)	71.0	72.4	97.2	97.2	97.2	99.2 (CPI + 1% where CPI is assumed to be 1%)	Rental escalation = CPI + 1%. If CPI deemed to be zero if CPI is negative.
Rent Rebate	n.a.	0.0	-22.6	-20.3	-18.0	0.0	
Total:	71.0	72.4 (to be pro-rated)	74.6	76.9	79.2	99.2	
Rent Step-up (%)	n.a.	2%	3%	3%	3%	25.3%	

Source: PREIT, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	115	121	123	124	127
EBITDA	93	96	101	102	104
Operating profit	93	96	101	102	104
Net profit (rep./act.)	123	88	93	89	331
Net profit (adj.)	78	82	88	89	91
EPU (S\$ cents)	12.9	13.5	14.6	14.7	15.1
DPU (S\$ cents)	13.2	13.8	13.8	14.8	15.2
PE (x)	37.0	35.3	32.7	32.4	31.5
P/B (x)	2.4	2.4	2.4	2.4	2.0
DPU Yld (%)	2.8	2.9	2.9	3.1	3.2
Net margin (%)	107.1	73.2	75.8	71.8	260.4
Net debt/(cash) to equity (%)	60.8	65.0	61.5	61.5	54.6
Interest cover (x)	14.1	18.4	22.0	22.4	22.1
ROE (%)	10.6	7.5	7.9	7.5	25.3
Consensus DPU (S\$ cent)	n.a.	n.a.	14.0	14.7	15.7
UOBKH/Consensus (x)	-	-	0.98	1.00	0.97

Source: Parkway Life REIT, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$4.77
Target Price	S\$4.72
Upside	-1.0%
(Previous TP)	S\$4.38

COMPANY DESCRIPTION

Parkway Life REIT (PLife) is one of Asia's largest listed healthcare REITs. It invests primarily in income-producing real estate and real estate-related assets used primarily for healthcare and healthcare-related purposes.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PREIT SP
Shares issued (m):	605.0
Market cap (S\$m):	2,885.9
Market cap (US\$m):	2,128.4
3-mth avg daily t'over (US\$m):	2.1

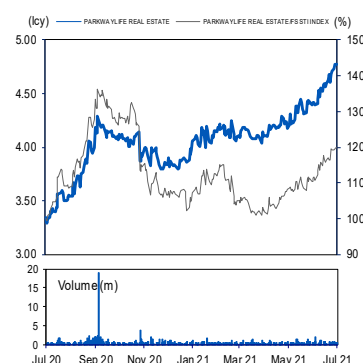
Price Performance (%)

52-week high/low	S\$4.77/S\$3.29			
1mth	3mth	6mth	1yr	YTD
8.7	16.3	20.2	44.1	23.3

Major Shareholders

Parkway Hldgs	35.6
Cohen & Steers	7.0
FY21 NAV/Share (S\$)	1.96
FY21 Net Debt/Share (S\$)	1.21

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Win-win outcome facilitates future collaborations.** The successful completion of the extension would pave the way for future collaborations between PREIT and its sponsor IHH Healthcare. They could involve: a) PREIT acquiring Mount Elizabeth Novena Hospital, and b) partnership in overseas expansion whereby IHH Healthcare acquires the healthcare operators while PREIT acquires the healthcare assets.
- **Strong positive impact on DPU and NAV per unit.** On a pro forma basis, management estimates positive impact on DPU at 0.51 S cents or 3.7% for Year 1 and 4.47 S cents or 32.4% for Year 4. The extension of master leases will lead to an increase in the valuation of its investment properties. Increase in NAV is estimated at S\$240.2m in Year 1 and S\$238.5m in Year 4. NAV per unit is estimated to increase by 19.9% to S\$2.35 in Year 1 and a further 6% to S\$2.49 in Year 4.

EARNINGS REVISION/RISK

- We forecast DPU of 15.2 S cents for 2023 (Year 1), 15.4 S cents for 2024 (Year 2), 15.7 S cents for 2025 (Year 3) and 18.7 S cents for 2026 (Year 4).

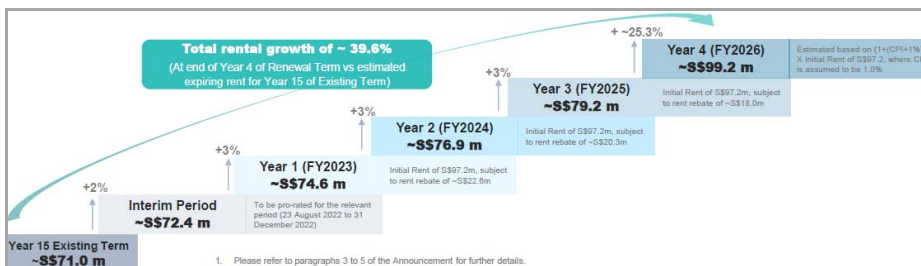
VALUATION/RECOMMENDATION

- **Downgrade to HOLD.** PREIT's strategic collaboration is comprehensive and exceeds our expectations. However, share price performance has also been spectacular, gaining 23.3% on a ytd basis.
- Our new target price of S\$4.72 is based on DDM (cost of equity: 5.5%, terminal growth: 2.0%).

SHARE PRICE CATALYST

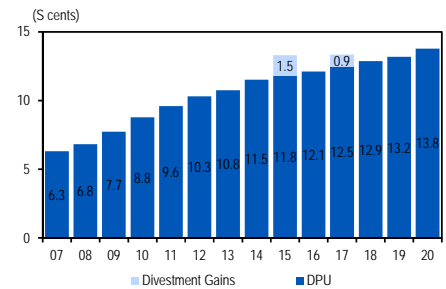
- Extension of leases for Singapore hospitals.
- Yield-accretive acquisitions.

NEW MASTER LEASE AGREEMENTS



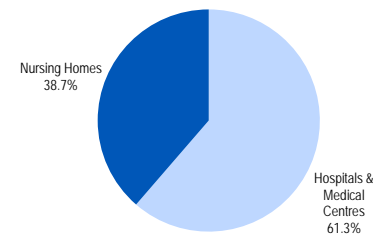
Source: PREIT

UNINTERRUPTED DPU GROWTH SINCE IPO



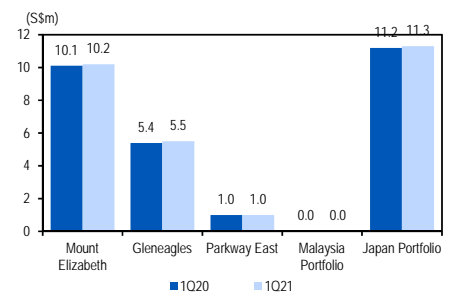
Source: PREIT

ASSET MIX (1Q21)



Source: PREIT

BREAKDOWN OF NPI (1Q21)



Source: PREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	120.9	123.0	124.0	127.3
EBITDA	96.1	100.8	101.7	104.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	96.1	100.8	101.7	104.3
Net interest income/(expense)	(5.2)	(4.6)	(4.5)	(4.7)
Pre-tax profit	97.6	101.3	97.1	339.6
Tax	(9.2)	(8.1)	(8.1)	(8.1)
Net profit	88.4	93.2	89.1	331.5
Net profit (adj.)	81.7	88.1	89.1	91.5

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	2,021.9	1,991.0	1,991.0	2,281.0
Other LT assets	4.4	4.4	4.4	4.4
Cash/ST investment	22.7	27.0	27.2	22.6
Other current assets	18.1	12.0	12.1	12.4
Total assets	2,067.0	2,034.4	2,034.7	2,320.4
ST debt	163.0	163.0	163.0	163.0
Other current liabilities	29.8	25.2	25.4	25.9
LT debt	628.5	595.0	595.0	640.0
Other LT liabilities	62.1	62.7	63.0	63.4
Shareholders' equity	1,183.6	1,188.5	1,188.3	1,428.1
Total liabilities & equity	2,067.0	2,034.4	2,034.7	2,320.4

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	90.3	100.6	106.2	106.2
Pre-tax profit	89.8	96.2	97.1	99.6
Deprec. & amort.	0.0	0.0	0.0	0.0
Other operating cashflows	0.5	4.4	9.0	6.6
Investing	(28.6)	32.1	(5.0)	(52.0)
Capex (growth)	(4.6)	(5.0)	(5.0)	(52.0)
Capex (maintenance)	(24.0)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	37.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(61.5)	(128.4)	(101.0)	(58.8)
Distribution to unitholders	(82.0)	(83.2)	(89.3)	(91.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	27.4	(33.5)	0.0	45.0
Others/interest paid	(6.8)	(11.7)	(11.7)	(12.1)
Net cash inflow (outflow)	0.3	4.3	0.2	(4.6)
Beginning cash & cash equivalent	21.9	22.7	27.0	27.2
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	22.7	27.0	27.2	22.6

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	79.5	81.9	82.0	81.9
Pre-tax margin	80.7	82.4	78.3	266.8
Net margin	73.2	75.8	71.8	260.4
ROA	4.3	4.5	4.4	15.2
ROE	7.5	7.9	7.5	25.3
Growth				
Turnover	4.9	1.8	0.8	2.6
EBITDA	3.1	4.8	0.9	2.6
Pre-tax profit	(26.1)	3.8	(4.1)	249.6
Net profit	(28.3)	5.4	(4.4)	272.1
Net profit (adj.)	4.7	7.8	1.1	2.7
EPU	4.7	7.8	1.1	2.7
Leverage				
Debt to total capital	40.1	38.9	38.9	36.0
Debt to equity	66.9	63.8	63.8	56.2
Net debt/(cash) to equity	65.0	61.5	61.5	54.6
Interest cover (x)	18.4	22.0	22.4	22.1

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