

Singapore Company Update

Parkway Life Real Estate Investment Trust

Bloomberg: PREIT SP | Reuters: PWLR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Mar 2022

BUY

Last Traded Price (3 Mar 2022): S\$4.62 (STI : 3,253.65)
Price Target 12-mth: S\$5.75 (24% upside)

Analyst

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What's New

- FY21 DPU +2.1% y-o-y, in line
- Borrowing costs at its lowest of 0.52%, with no refinancing until 1 Jun 23
- 2% to 3% rental growth guaranteed from Singapore hospitals; potential catalysts include acquisition of pipeline Singapore hospital and venturing into new market)
- Maintain BUY; TP of S\$5.75

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Gross Revenue	121	121	128	129
Net Property Inc	113	111	119	120
Total Return	87.2	332	88.8	89.0
Distribution Inc	86.9	88.2	89.5	89.6
EPU (S cts)	13.2	14.5	14.7	14.7
EPU Gth (%)	(1)	10	1	0
DPU (S cts)	13.8	14.1	14.3	14.3
DPU Gth (%)	4	2	2	0
NAV per shr (S cts)	196	237	238	238
PE (X)	35.0	31.9	31.5	31.4
Distribution Yield (%)	3.0	3.0	3.1	3.1
P/NAV (x)	2.4	1.9	1.9	1.9
Aggregate Leverage (%)	38.3	35.2	36.9	38.2
ROAE (%)	6.7	6.7	6.2	6.2

Distn. Inc Chng (%): -
Consensus DPU (S cts): 15.0
Other Broker Recs: B: 2 S: 0 H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Inflation-linked rental growth

Investment Thesis

A new lease of life secured for the next two decades. Parkway Life Real Estate Investment Trust (PREIT) has surpassed expectations with the renewal of the Singapore hospitals' master lease that comes with a c.40% rent increment, 27% rise in NAV, and 20-year extension of the lease tenure. While trading at a premium of 2.4x P/NAV, we believe PREIT's growth story remains intact with catalysts in the pipeline. BUY!

Staying Singapore-centric, with "renewed" ROFR on Mount Elizabeth Novena Hospital. The ROFR on Mount Elizabeth Novena Hospital has been "renewed" for 10 years, implying PREIT's intention to remain Singapore-centric and the committed support that its sponsor lends.

Third pillar of growth. PREIT's management believes that it is timely to look at building a third pillar for the company's next growth phase, which, we think, would be in matured markets.

Valuation:

Maintain BUY, raised TP to S\$5.75. Our DCF-derived target price (TP) of S\$5.75 is based on a weighted average cost of capital (WACC) of 4.7% and terminal growth of 2.9%. We have factored in the renewal of the master lease and assumed new acquisitions worth S\$25m.

Where we differ:

A new chapter of growth. We believe the rental upliftment from the renewal of the master lease marks the start of a new chapter of growth. PREIT is now in a better position of focusing on inorganic growth via i) asset recycling strategies, ii) venturing into a new market (third pillar), and iii) exercising ROFR from its sponsor.

Key Risks to Our View:

Currency risks. PREIT derives c.40% of its earnings from healthcare assets in Japan and is exposed to foreign exchange (forex) volatility.

At A Glance

Issued Capital (m shrs)	605
Mkt. Cap (S\$m/US\$m)	2,795 / 2,064
Major Shareholders (%)	
Parkway Holdings Ltd	35.9
Cohen & Steers Inc	7.0
Free Float (%)	57.1
3m Avg. Daily Val (US\$m)	2.1
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Inflation-linked rental growth

Result Highlights – FY21 DPU grew 2.1% y-o-y, contributed by higher rents, offset by depreciation of JPY, and one-off allowance for doubtful debts; cost of debt at all time low of 0.52%.

- PLife REIT reported 4Q21 DPU of 3.57Scts, flat y-o-y.
- FY21 DPU grew 2.1% y-o-y to 14.08Scts, in line.
- 4Q21 and FY21 NPI grew 2.1% y-o-y and 1.0% y-o-y, respectively, led by higher rents received from the Singapore hospitals (4Q21 NPI: +1.7% y-o-y; FY21 NPI: +1.2% y-o-y). This was largely supported by the inflation-linked rental review of Singapore (+1.66% from Aug 21) but offset by lower contributions from assets divested, depreciation of JPY, and a one-off allowance for doubtful debts (Japan assets).
- Gearing stayed relatively stable q-o-q, at 35.4% (vs. 34.9% as at Sep 21). All-in cost of debt continues to decline q-o-q, though marginally, at 0.52% (0.53% in 3Q21).
- Post terming out a short-term loan drawn to fund the Japan acquisitions in 2H21, PLife REIT does not have any debt refinancing needs until Jun 23, sheltering it from rising interest rates in the near term. Weighted average debt term improves to 3.9 years from 3.4 years (as at Dec 21).

Outlook

Singapore hospitals to grow at 2% to 3% from Aug 22 to Dec 25; Mount Elizabeth Novena Hospital a potential acquisition target

- PLife REIT continues to deliver steady returns with a high degree of income visibility from its Singapore hospitals, which contribute c.60% of the top line. Rental revisions are pegged to a CPI-linked formula, which underpins a steady growth profile for PLife REIT.
- Post the renewal of the master lease, rents are guaranteed to increase by 2% (interim period from Aug 22 to Dec 22) and 3% (FY23-FY25) from Aug 22 onwards.
- An annual rent review formula shall be applicable from FY26 with an estimated c.25% step up in rents.
- Concurrently to the renewal of the master lease, PLife REIT's sponsor, IHH Healthcare has granted a 10-year ROFR on Mount Elizabeth Novena Hospital. Given the successful collaboration between PLife REIT and its sponsor, we believe the potential injection of Mount Elizabeth Novena Hospital could be realised someday. In a previous media interview, the CEO of IHH Healthcare said that IHH will do a portfolio review and

may consider asset recycling and divestments of assets in areas that they do not foresee good cluster growth, and utilise the capital to grow other assets. While this does not directly imply that Mount Elizabeth Novena Hospital is up for divestment, at least its sponsor is now open to asset recycling and divestments.

Recycling of Japanese assets continues to deliver growth

- In FY21, PLife REIT acquired three nursing homes in Japan for a total of S\$87.3m at a net property yield of 5.7% to 5.9%.
- In Jan 21, it finally sold its non-core asset, P-Life Matsudo, the only pharmaceutical product distributing and manufacturing facility within its Japan portfolio, for S\$37.2m at a divestment yield of 4.3% (vs. 5.3% of acquisition yield) and 12% above the original purchase price.
- Asset recycling activities have been sporadic. With the acquisition made in December 2021, we believe asset recycling exercises will continue to drive growth ahead, given its successful track record, but the timing remains uncertain.

Building a third pillar for the next phase of growth

- As its Japan assets have grown to a decent size, contributing c.40% of the group's gross revenue, management believes it is timely to look into building a third pillar for PLife REIT (in addition to asset recycling and the acquisition pipeline from its sponsor) for its next growth phase.
- Management continues to explore opportunities in developed countries with a mature healthcare market and believes that there could be potential options in Australia and Europe.
- However, management remains cautious on new ventures and hence, the timing of a potential entry is uncertain.

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Maintain BUY; TP of S\$5.75

- We continue to like PLife REIT for its strong earnings visibility, which is a positive attribute, especially with the currently volatile and uncertain market outlook.
- We maintain our BUY rating and a TP of S\$5.75, despite the current lower dividend yield during the downtime period post the renewal of leases.
- A further upside to our forecasts stems from the rollout of more asset recycling exercises in Japan, and acquisitions of earnings-accretive hospital assets in Singapore or overseas.

Company Background

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

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg y-o-y	% chg h-o-h
Gross revenue	30.6	30.5	30.6	0.1	0.2
Property expenses	(2.1)	(3.3)	(2.1)	(0.3)	(35.5)
Net Property Income	28.5	27.3	28.5	0.2	4.5
Other Operating expenses	(4.9)	(3.6)	(4.1)	(15.4)	13.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(1.4)	(1.1)	(1.4)	(6.1)	(28.5)
Exceptional Gain/(Loss)	1.13	(0.4)	1.78	nm	nm
Net Income	23.4	22.1	24.7	5.9	11.9
Tax	(3.3)	(1.9)	(2.4)	(27.1)	24.7
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	20.1	20.2	22.3	11.3	10.7
Total Return	27.5	259	22.4	(18.4)	(91.3)
Non-tax deductible Items	(6.1)	(238)	(0.9)	(85.8)	(99.6)
Net Inc available for Dist.	21.4	21.6	21.6	0.6	0.1
Ratio (%)					
Net Prop Inc Margin	93.1	89.3	93.1		
Dist. Payout Ratio	100.7	100.0	100.0		

Source of all data: Company, DBS Bank

Parkway Life Real Estate Investment Trust

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Singapore	68.5	69.5	70.4	72.0	74.2
Japan Nursing homes	46.4	51.1	49.9	55.8	54.1
Malaysia	0.37	0.31	0.42	0.54	0.55
Total	115	121	121	128	129
NPI (\$m) (\$m)					
Singapore	65.4	66.3	67.1	68.7	70.8
Japan Nursing homes	42.6	46.1	43.9	50.2	48.7
Malaysia	0.22	0.16	0.28	0.37	0.38
Total	108	113	111	119	120
NPI (\$m) Margins (%)					
Singapore	95.4	95.5	95.3	95.4	95.4
Japan Nursing homes	91.9	90.1	87.9	90.0	90.0
Malaysia	60.4	51.1	65.5	69.0	69.0
Total	93.9	93.1	92.2	92.9	93.0

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	115	121	121	128	129
Property expenses	(7.0)	(8.4)	(9.5)	(9.1)	(9.0)
Net Property Income	108	113	111	119	120
Other Operating expenses	(15.1)	(17.5)	(14.3)	(16.4)	(16.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(6.6)	(5.2)	(4.7)	(4.7)	(5.1)
Exceptional Gain/(Loss)	2.44	(0.8)	4.16	0.0	0.0
Net Income	89.0	89.0	96.4	98.3	98.4
Tax	(8.6)	(9.2)	(8.9)	(9.4)	(9.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	80.4	79.8	87.6	88.8	89.0
Total Return	123	87.2	332	88.8	89.0
Non-tax deductible Items	(40.6)	(0.3)	(244)	0.62	0.62
Net Inc available for Dist.	82.8	86.9	88.2	89.5	89.6
Growth & Ratio					
Revenue Gth (%)	2.1	4.9	(0.2)	6.3	0.4
N Property Inc Gth (%)	2.7	4.0	(1.1)	7.2	0.5
Net Inc Gth (%)	8.6	(0.7)	9.7	1.4	0.2
Dist. Payout Ratio (%)	96.4	96.0	96.6	96.6	96.7
Net Prop Inc Margins (%)	93.9	93.1	92.2	92.9	93.0
Net Income Margins (%)	69.8	66.0	72.5	69.2	69.1
Dist to revenue (%)	71.9	71.9	73.1	69.7	69.6
Managers & Trustee's fees	13.1	14.5	11.8	12.7	12.6
ROAE (%)	6.9	6.7	6.7	6.2	6.2
ROA (%)	4.1	3.9	4.0	3.7	3.6
ROCE (%)	4.4	4.2	4.0	3.9	3.9
Int. Cover (x)	14.1	18.2	20.7	22.1	20.3

Source: Company, DBS Bank

Parkway Life Real Estate Investment Trust

Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Gross revenue	30.6	30.0	29.6	30.5	30.6
Property expenses	(2.1)	(2.0)	(2.1)	(3.3)	(2.1)
Net Property Income	28.5	28.0	27.4	27.3	28.5
Other Operating	(4.9)	(3.8)	(2.7)	(3.6)	(4.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.4)	(1.1)	(1.1)	(1.1)	(1.4)
Exceptional Gain/(Loss)	1.13	3.20	(0.4)	(0.4)	1.78
Net Income	23.4	26.4	23.2	22.1	24.7
Tax	(3.3)	(2.8)	(1.7)	(1.9)	(2.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	20.1	23.6	21.5	20.2	22.3
Total Return	27.5	28.7	21.5	259	22.4
Non-tax deductible Items	(6.1)	(6.3)	(1.0)	(238)	(0.9)
Net Inc available for Dist.	21.4	22.3	20.5	21.6	21.6
Growth & Ratio					
Revenue Gth (%)	1	(2)	(1)	3	0
N Property Inc Gth (%)	1	(2)	(2)	(1)	5
Net Inc Gth (%)	(3)	17	(9)	(6)	11
Net Prop Inc Margin (%)	93.1	93.4	92.8	89.3	93.1
Dist. Payout Ratio (%)	100.7	96.6	100.0	100.0	100.0

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	1,966	1,991	2,291	2,370	2,425
Other LT Assets	3.02	4.36	15.3	15.3	15.3
Cash & ST Invts	21.9	22.7	26.4	39.4	36.6
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	12.0	18.1	12.7	13.3	13.4
Other Current Assets	0.0	30.9	0.0	0.0	0.0
Total Assets	2,003	2,067	2,345	2,438	2,491
ST Debt	77.8	163	94.7	94.7	94.7
Creditor	21.9	26.9	21.9	28.5	28.2
Other Current Liab	3.21	2.89	0.97	10.4	10.4
LT Debt	662	629	731	806	856
Other LT Liabilities	56.0	62.1	61.7	61.7	61.7
Unit holders' funds	1,182	1,184	1,435	1,437	1,439
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,003	2,067	2,345	2,438	2,491
Non-Cash Wkg. Capital	(13.2)	19.2	(10.2)	(25.5)	(25.3)
Net Cash/(Debt)	(718)	(769)	(800)	(862)	(914)
Ratio					
Current Ratio (x)	0.3	0.4	0.3	0.4	0.4
Quick Ratio (x)	0.3	0.2	0.3	0.4	0.4
Aggregate Leverage (%)	36.9	38.3	35.2	36.9	38.2
Z-Score (X)	2.2	2.1	2.1	2.1	2.1

Source: Company, DBS Bank

Parkway Life Real Estate Investment Trust

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	89.0	96.4	341	98.3	98.4
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(5.0)	(5.1)	(5.5)	0.0	(9.4)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	1.29	0.62	(2.4)	5.90	(0.3)
Other Operating CF	3.92	(1.6)	(243)	0.0	0.0
Net Operating CF	89.3	90.3	89.9	104	88.7
Net Invnt in Properties	(9.6)	(4.6)	(11.7)	(79.7)	(54.9)
Other Invnts (net)	(51.5)	(24.0)	(63.3)	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.01	0.01	0.0	0.0	0.0
Net Investing CF	(61.1)	(28.6)	(75.0)	(79.7)	(54.9)
Distribution Paid	(79.4)	(82.0)	(85.2)	(86.5)	(86.6)
Chg in Gross Debt	56.4	25.7	79.1	75.0	50.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(5.4)	(5.1)	(3.9)	0.0	0.0
Net Financing CF	(28.4)	(61.5)	(10.0)	(11.5)	(36.6)
Currency Adjustments	0.11	0.52	(1.8)	0.0	0.0
Chg in Cash	(0.2)	0.79	3.14	13.0	(2.7)
Operating CFPS (S cts)	14.5	14.8	15.2	16.2	14.7
Free CFPS (S cts)	13.2	14.2	12.9	4.04	5.60

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Apr 21	4.10	4.50	BUY
2:	15 Jul 21	4.87	5.75	BUY

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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