

COMPANY RESULTS

Keppel Pacific Oak US REIT (KORE SP)

1Q22: Benefitting From In-migration And Growth In Magnet Cities

Growth in NPI of 6.7% yoy in 1Q22 was attributed to the acquisition of Bridge Crossing in Nashville and 105 Edgeview in Denver, which was completed on 20 Aug 21. KORE provides a unique exposure to in-migration and growth in magnet cities. Growth in rents for growth markets has increased 1.2% in the past 12 months and is projected to increase 3.4% in the next 12 months. KORE provides attractive 2022 distribution yield of 8.4% and P/NAV of 0.94x. Maintain BUY with a lower target price of US\$1.07.

1Q22 RESULTS

Year to 31 Dec (US\$m)	1Q22	yoy % Chg	Remarks
Gross Revenue	37.0	+6.9	Acquisition of Bridge Crossing in and 105 Edgeview completed on 20 Aug 21.
Net Property Income (NPI)	21.7	+6.7	
Adjusted NPI	22.0	+7.1	Exclude non-cash straight-line rent, lease incentives and amortisation of leasing commissions.
Distributable income	16.6	+10.9	

Source: KORE, UOB Kay Hian

RESULTS

- Keppel Pacific Oak US REIT (KORE) reported distributable income of US\$16.6m (+10.9% yoy) for 1Q22, which is in line with our expectations.
- Growth boosted by two newly-acquired properties.** Gross revenue and NPI grew 6.9% and 6.7% yoy respectively in 1Q22. The better performance is attributed to the acquisition of Bridge Crossing in Nashville and 105 Edgeview in Denver, which was completed on 20 Aug 21.
- Magnet cities provide organic growth.** KORE achieved positive rental reversion of 2.4% for 1Q22 (2021: 6.0%) driven by properties located in Seattle – Bellevue/Redmond and Sacramento. KORE signed leases for 146,768sf of office space in 1Q22 (2021: 730,619sf), of which 47% are renewals and 21.1% are expansions. Professional services, finance & insurance and technology, advertising, media & information (TAMI) accounted for 41.3%, 33.4% and 6.3% of new leasing demand and expansions respectively.
- Management expects to maintain positive rental reversion at mid-single-digits in 2022 as in-place rents are 8.9% below asking rents. Growth of KORE's portfolio is further supported by built-in average annual rental escalation of 2.4%.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	140	141	150	151	152
EBITDA	74	74	79	82	82
Operating profit	74	74	79	82	82
Net profit (rep./act.)	56	77	62	62	62
Net profit (adj.)	45	46	62	62	62
EPU (US\$ cent)	4.8	4.8	6.0	5.9	5.8
DPU (US\$ cent)	6.2	6.3	6.3	6.1	6.0
PE (x)	15.5	15.7	12.5	12.6	12.7
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	8.4	8.5	8.4	8.1	8.1
Net margin (%)	40.4	54.8	41.6	41.3	40.8
Net debt/(cash) to equity (%)	57.8	59.8	63.2	66.4	69.7
Interest cover (x)	4.7	5.1	4.7	4.3	4.1
ROE (%)	7.4	9.5	7.3	7.3	7.3
Consensus DPU (US\$ cent)	n.a.	n.a.	6.3	6.8	6.9
UOBKH/Consensus (x)	-	-	1.00	0.89	0.87

Source: Keppel Pacific Oak US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.745
Target Price	US\$1.07
Upside	+43.6%
(Previous TP)	US\$1.10)

COMPANY DESCRIPTION

KORE invests in a diversified portfolio of income-producing office real estate in growth cities driven by innovation and technology. It owns 15 freehold office buildings and business campuses in nine markets, namely Seattle – Bellevue/Redmond, Austin, Denver, Nashville, Houston, Dallas, Orlando, Sacramento and Atlanta.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KORE SP
Shares issued (m):	1,042.1
Market cap (US\$m):	776.4
Market cap (US\$m):	776.4
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

52-week high/low	US\$0.810/US\$0.685			
1mth	3mth	6mth	1yr	YTD
4.9	(4.5)	(5.7)	1.4	(6.9)

Major Shareholders

Temasek Hldgs	10.9
Hillsboro Capital	8.7

FY22 NAV/Share (US\$) 0.81

FY22 Net Debt/Share (US\$) 0.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Occupancy rate likely to have bottomed.** Portfolio occupancy was stable at 91.7% in 1Q22. Occupancy at Iron Point in Sacramento improved 3.2ppt qoq to 90.6% after securing real estate broker Keller Williams as the new tenant. Occupancy at One Twenty Five in Dallas improved 3.4ppt qoq to 94.0% after securing United Capital Advisors (subsidiary of Goldman Sachs Personal Financial Management). Newly-acquired Bridge Crossing at Nashville and 105 Edgeview in Denver were fully occupied.
- Healthy balance sheet.** Aggregate leverage was stable at 37.5% and well within the regulatory limit of 50%. All-in average cost of debt has increased 0.13ppt to 2.93%. 84.2% of KORE's borrowings are hedged into fixed interest rates. Management estimated that every 50bp increase in LIBOR/SOFR reduce DPU per year by 0.062 US cents. Assuming that the Fed Funds Rate averages 2.5% in 2023, we estimate that average cost of debt will increase to 3.18%. KORE has no long-term refinancing until Nov 23.

STOCK IMPACT

- Rents in magnet cities started to increase.** According to CoStar Office Report, average growth in rents for growth markets over the past 12 months was 1.2% as of Apr 22. Notable increases were seen at Sacramento, Folsom +1.7%, Seattle - Eastside Bellevue +2.6%, Seattle - Redmond +2.6%, Orlando, Maitland +3.0% and Austin, Northwest +2.4%. Average growth in rents over the next 12 months is projected to be 3.4%.
- Continue to invest in growth from magnet cities.** KORE has presence in six out of the 20 fastest growing states in the US. Management continues to scout for opportunities to invest in growth markets, such as Phoenix in Arizona, Raleigh and Durham in North Carolina, Salt Lake City in Utah, San Antonio in Texas and Tampa and Miami in Florida. Many companies adopt the hub-and-spoke model where they retain their main office in gateway cities but open smaller satellite offices in key growth markets.
- Employees returning to their offices.** Sunbelts markets have outperformed gateway cities in workplace occupancy. Austin, Houston and Dallas in Texas have registered high workplace occupancy at 62.4%, 56.3% and 51.8% respectively.
- Asset enhancement for The Plaza Buildings.** KORE has hired Pastakia + Associates for permitting and entitlement work on a new five-storey multi-family building in downtown Bellevue atop an existing six-storey car park, which is part of KORE's The Plaza Buildings. The site is in close proximity to Bellevue Square and downtown Bellevue Station, where light rail service is scheduled to commence in 2023. The redevelopment is in line with KORE's mandate to invest in commercial assets in key growth markets in the US.

EARNINGS REVISION/RISK

- We trimmed our 2023 DPU forecast by 3% due to higher average cost of debt.

VALUATION/RECOMMENDATION

- Unique value proposition of growth and yield.** KORE provides an attractive 2022 distribution yield of 8.4%. The stock trades at P/NAV of 0.94x.
- Maintain BUY with a lower target price of US\$1.07**, based on DDM (cost of equity: 7.0%, terminal growth: 1.5%).

SHARE PRICE CATALYST

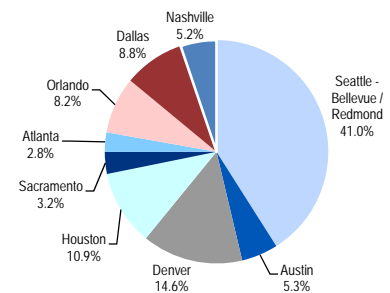
- Growth from Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from continued positive rental reversion.

KEY OPERATING MATRICES

Key Metrics	1Q21	1H21	3Q21	4Q21	1Q22	yoy % chg	qoq % chg
DPU (US cents)	n.a.	3.16	n.a.	3.18	n.a.	n.a.	n.a.
Occupancy	91.6%	90.5%	91.8%	91.9%	91.7%	0.1ppt	-0.2ppt
Aggregate Leverage	37.5%	37.1%	37.7%	37.2%	37.5%	0.0ppt	0.3ppt
Average Cost of Debt	2.82%	2.82%	2.81%	2.80%	2.93%	0.11ppt	0.13ppt
WALE by NLA (years)	3.6	4.5	3.5	3.7	3.7	0.1yrs	0yrs
Weighted Average Debt Maturity (years)	2.7	2.5	2.5	2.8	2.9	0.2yrs	0.1yrs
Rental Reversions	5.7%	5.4%	8.3%	6.0%	2.4%	-3.3%	-3.6%

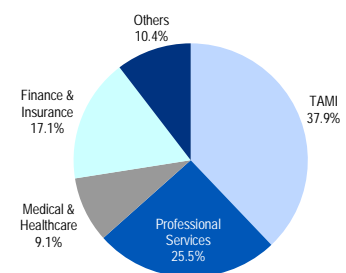
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (MAR 22)



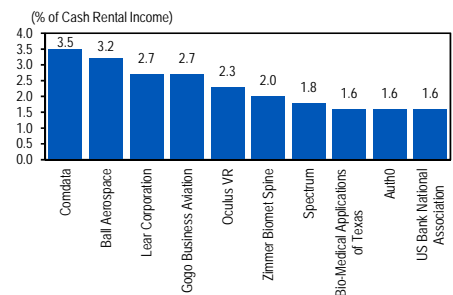
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (MAR 22)



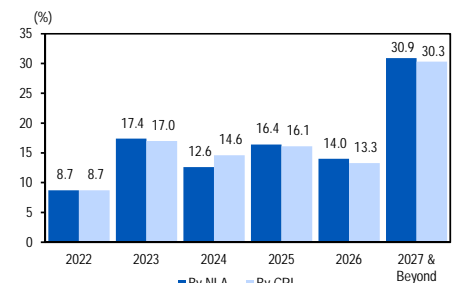
Source: KORE

TOP 10 TENANTS AS % OF CASH RENTAL INCOME (MAR 22)



Source: KORE

LEASE EXPIRY PROFILE (MAR 22)



Source: KORE

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	246.7	319.8	404.3	486.6
EBITDA	94.1	140.6	166.9	185.6
Deprec. & amort.	25.8	46.4	50.2	45.4
EBIT	68.3	94.1	116.7	140.2
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	1.3	0.0	0.0	0.0
Net interest income/(expense)	0.3	0.4	0.2	0.2
Pre-tax profit	69.9	94.5	116.9	140.4
Tax	(7.3)	(16.1)	(20.1)	(23.9)
Minorities	(0.3)	(0.3)	(0.3)	(0.3)
Net profit	62.2	78.1	96.5	116.2
Net profit (adj.)	62.2	78.1	96.5	116.2

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	290.2	313.8	283.6	258.2
Other LT assets	26.0	26.0	26.0	26.0
Cash/ST investment	176.6	201.5	288.6	387.2
Other current assets	152.1	181.8	222.5	262.1
Total assets	644.9	723.1	820.7	933.5
ST debt	2.1	2.1	2.1	2.1
Other current liabilities	72.0	87.4	107.4	127.0
LT debt	26.2	26.2	26.2	26.2
Other LT liabilities	69.7	69.7	69.7	69.7
Shareholders' equity	429.6	492.1	569.3	662.3
Minority interest	45.4	45.7	46.0	46.3
Total liabilities & equity	644.9	723.1	820.7	933.5

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	73.2	110.2	126.2	141.6
Pre-tax profit	69.9	94.5	116.9	140.4
Tax	(7.3)	(16.1)	(20.1)	(23.9)
Deprec. & amort.	25.8	46.4	50.2	45.4
Associates	1.3	0.0	0.0	0.0
Working capital changes	(16.0)	(14.3)	(20.6)	(20.1)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(0.5)	(0.4)	(0.2)	(0.2)
Investing	(119.8)	(69.5)	(19.5)	(19.5)
Capex (growth)	(104.9)	(70.0)	(20.0)	(20.0)
Investments	(4.5)	0.0	0.0	0.0
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	(10.6)	0.5	0.5	0.5
Financing	(4.9)	(16.4)	(20.1)	(24.1)
Dividend payments	(6.6)	(15.6)	(19.3)	(23.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	49.0	0.0	0.0	0.0
Loan repayment	(64.2)	0.0	0.0	0.0
Others/interest paid	16.9	(0.7)	(0.8)	(0.8)
Net cash inflow (outflow)	(51.5)	24.3	86.6	98.0
Beginning cash & cash equivalent	226.9	177.1	201.9	289.0
Changes due to forex impact	1.2	0.0	0.0	0.0
Ending cash & cash equivalent	176.6	201.4	288.5	387.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	38.1	44.0	41.3	38.1
Pre-tax margin	28.3	29.6	28.9	28.8
Net margin	25.2	24.4	23.9	23.9
ROA	10.4	11.4	12.5	13.2
ROE	14.5	17.0	18.2	18.9
Growth				
Turnover	13.0	29.6	26.4	20.4
EBITDA	2.1	49.4	18.7	11.2
Pre-tax profit	(0.6)	35.3	23.7	20.0
Net profit	8.0	25.6	23.5	20.4
Net profit (adj.)	8.0	25.6	23.5	20.4
EPS	(11.4)	25.7	23.5	20.4
Leverage				
Debt to total capital	5.6	5.0	4.4	3.8
Debt to equity	6.6	5.7	5.0	4.3
Net debt/(cash) to equity	(34.5)	(35.2)	(45.7)	(54.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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