

Singapore

HOLD (no change)

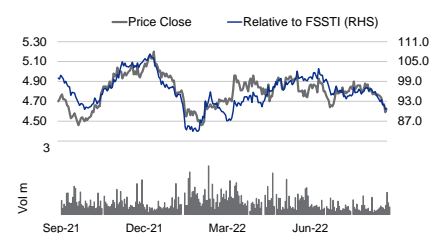
Consensus ratings*: Buy 2 Hold 3 Sell 0

Current price:	S\$4.62
Target price:	S\$5.06
Previous target:	S\$5.06
Up/downside:	9.6%
CGS-CIMB / Consensus:	3.1%
Reuters:	PWLR.SI
Bloomberg:	PREIT SP
Market cap:	US\$1,982m
	S\$2,795m
Average daily turnover:	US\$1.20m
	S\$1.67m
Current shares o/s:	605.0m
Free float:	64.2%

*Source: Bloomberg

Key changes in this note

- FY22F DPU increased by 0.019%
- FY23F DPU increased by 0.254%
- FY24F DPU increased by 0.254%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.9	-2.7	-1.7
Relative (%)	-5.5	-8.2	-9.1

Major shareholders	% held
Parkway Pantai Limited	35.6
Cohen & Steers	7.0
Bank of New York Mellon Corp	4.7

Analyst(s)



LOCK Mun Yee

T (65) 6210 8606

E munyee.lock@cgs-cimb.com

Parkway Life REIT

More Japan acquisitions

- Acquires two nursing homes in Greater Tokyo for S\$29.4m.
- Transaction initiates new collaboration with Daiwa House, while establishing new relationship with Zen Wellness for tenant diversification in Japan.
- Maintain Hold rating with an unchanged TP of S\$5.06.

Buys another two nursing homes in the Greater Tokyo area

PREIT has announced the acquisition of two nursing homes – Assisted Living Edogawa and Assisted Living Toke - in the Greater Tokyo region, from Daiwa House Industry Co Ltd (Daiwa House) for a total consideration of ¥2,880m (S\$29.4m), or 11.1% below independent valuation. The properties, completed in 2021, are well-located in residential areas of Edogawa Ward and Chiba City and has close connectivity to Tokyo Centre. This is PREIT's first acquisition from Daiwa House and initiates a new collaboration with the latter for potential future pipelines of assets, in our view. It expects the transaction to be completed by 3Q22.

Establishing new collaborative relationships

We estimate the purchase could boost PREIT's Japan portfolio to c.S\$755m, making up c.34% of its total assets under management (AUM). Under the terms of the agreement, PREIT will take over the properties' existing lease agreements with Zen Wellness Co Ltd (Zen Wellness) which have a balance lease term of 29 years. This will likely extend its portfolio weighted average lease expiry (WALE) from 17.05 years to 17.21 years, thus improving its income resiliency. This is PREIT's first working relationship with Zen Wellness and would enable the REIT to establish a long-term strategic alliance for further tenant diversification in Japan. According to management, Zen Wellness was established in Nov 2013 and currently operates 11 nursing homes in the Kanto/Greater Tokyo region.

We estimate DPU boost of 0.02-0.25%


PREIT expects to fund the acquisition with ¥ debt, to provide a natural hedge for foreign exchange risks arising from ¥ denominated assets. According to management, the purchase will likely raise PREIT's proforma leverage ratio from 32.5% (as at end-Jun 2022) to 34.3%. We expect the deal to be DPU accretive. Based on the stated net income yield of 5.2%, we estimate the additional contributions could raise our FY22-24F DPU estimates by 0.02-0.25%. Furthermore, at distribution income level, PREIT income remains well hedged, with its ¥ net income hedged till 1Q27 (as at end-2Q22), providing income stability to unitholders.

Reiterate Hold rating

We raise our FY22-24F DPU estimates by 0.019-0.254% to factor in the new income streams. Our DDM-based TP remains unchanged at S\$5.06. With its robust balance sheet, PREIT is well-placed to continue tapping into more inorganic growth opportunities, in our view. With limited near-term upside, we retain our Hold rating. Re-rating catalysts include accretive acquisitions, while downside risks include deflationary periods, whereby Singapore rent revisions would revert to 1%, when PREIT's annual rent formula kicks in again.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (S\$m)	120.9	120.7	129.1	132.4	135.2
Net Property Income (S\$m)	112.5	111.2	118.7	121.8	124.5
Net Profit (S\$m)	87.2	326.8	88.2	376.4	91.1
Distributable Profit (S\$m)	83.41	85.18	85.81	87.20	88.92
Core EPS (S\$)	0.13	0.15	0.15	0.16	0.15
Core EPS Growth	0.19%	8.34%	0.33%	7.04%	(3.50%)
FD Core P/E (x)	34.44	31.79	31.68	29.60	30.67
DPS (S\$)	0.14	0.14	0.14	0.14	0.15
Dividend Yield	2.98%	3.05%	3.07%	3.12%	3.18%
Asset Leverage	38.3%	35.2%	37.4%	35.3%	37.3%
BVPS (S\$)	1.96	2.37	2.44	2.91	2.92
P/BV (x)	2.36	1.95	1.90	1.59	1.58
Recurring ROE	6.86%	6.72%	6.07%	5.84%	5.17%
% Change In DPS Estimates			0.019%	0.254%	0.254%
CGS-CIMB/Consensus DPS (x)			1.01	1.03	0.98

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Refinitiv ESG Scores	
	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #f9c94d; padding: 5px; text-align: center;">C- ESG Score</div> <div style="background-color: #4caf50; padding: 5px; text-align: center;">A+ ESG Controversies Score</div> <div style="background-color: #f9c94d; padding: 5px; text-align: center;">C- ESG Combined Score</div> <div style="background-color: #e91e63; padding: 5px; text-align: center;">D- ESG Environment Pillar Score</div> <div style="background-color: #f9c94d; padding: 5px; text-align: center;">C- ESG Social Pillar Score</div> <div style="background-color: #8bc34a; padding: 5px; text-align: center;">B- ESG Government Pillar Score</div> </div>
<h3>ESG in a nutshell</h3> <p>According to Refinitiv, PREIT scored a C- in its overall ESG rankings in 2021. The score is split into Environmental (D-), Social (C-) and Governance (B-). PREIT scored well on ESG controversies with an A+. It established a Sustainability Steering Committee in 2017, which is supported by a Sustainability Task Force, and has met its targets set for 2021. We believe PREIT's announcement of a renewal capex agreement for its Singapore hospitals would enable it to improve its ESG scores once the renewals are completed.</p>	
<h4>Keep your eye on</h4> <p>PREIT's Environmental and Social scores are on the lower end of its peer group. Its Environmental score has been dragged down by its low environmental innovation, emissions and resource use scores. Its ranking for the Social pillar has been affected by low human rights and community scores.</p>	<h4>Implications</h4> <p>We expect PREIT's announcement of a renewal capex agreement for its Singapore hospitals to future-proof the properties through: 1) improvements in safety features and utilities infrastructure, 2) enhancement of the buildings' performance with eco-friendly and sustainability features through Green Mark Certification, 3) technological advances, such as building management systems, and 4) refreshed aesthetics and experience of the space. We believe these asset renewals will likely improve the company's rankings when completed. We have not applied any premium/discount for ESG in our fundamental valuations.</p>
<h4>ESG highlights</h4> <p>Refinitiv ranked PREIT 89th out of 94 companies in Singapore, and 26th among real estate companies/REITs in Singapore. Its ranking has been impacted by low scores in the Environmental and Social pillars. It enjoys a high score of A+ for ESG controversies.</p>	<h4>Implications</h4> <p>We have not applied any premium/discount for ESG in our fundamental valuations. However, as PREIT improves its E and S pillars, through its newly-announced renewal capex agreement, we believe that could raise its overall ESG scores.</p>
<h4>Trends</h4> <p>PREIT's management and shareholders have been ranked by Refinitiv as its top two best performing categories.</p>	<h4>Implications</h4> <p>We believe PREIT's continuous efforts to improve its ESG scores will likely have a positive impact on its operations and financials in the longer term.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

Figure 1: Key earnings revisions

FYE Dec (\$m)	Previous			New			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Gross revenue	128.4	131.6	134.5	129.1	132.4	135.2	0.56%	0.55%	0.55%
Distribution income	85.8	87.0	88.7	85.8	87.2	88.9	0.02%	0.25%	0.25%
DPU (Scts)	14.18	14.38	14.66	14.18	14.41	14.70	0.02%	0.25%	0.25%

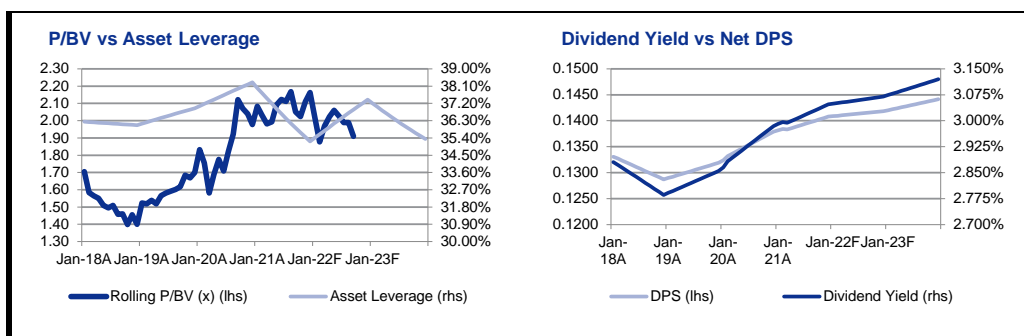
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: SREIT peer comparison table

SREIT	Bloomberg Ticker	Rec.	Price (LC) as at 20 Sep 22	Target Price (LC) (DDM-based)	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY22F Yield	FY23F Yield	FY24F Yield
Hospitality											
Ascott Residence Trust	ART SP	Add	1.08	1.25	\$2,636	37.5%	1.16	0.93	4.7%	6.3%	6.8%
CDL Hospitality Trust	CDREIT SP	Add	1.30	1.38	\$1,139	39.5%	1.31	0.99	3.9%	5.3%	6.3%
Far East Hospitality Trust	FEHT SP	Add	0.62	0.78	\$873	33.3%	0.85	0.73	4.6%	5.8%	6.8%
Frasers Hospitality Trust	FHT SP	NR	0.70	NA	\$967	39.3%	0.65	1.07	5.0%	5.2%	5.3%
Simple Average						37.4%		0.93	4.5%	5.7%	6.3%
Industrial											
AIMS AMP	AAREIT SP	NR	1.37	NA	\$698	33.6%	1.34	1.02	6.9%	7.2%	7.3%
Ascendas REIT	AREIT SP	Add	2.82	3.21	\$8,400	36.7%	2.31	1.22	5.9%	6.2%	6.3%
ESR-LOGOS REIT	EREIT SP	Add	0.40	0.51	\$1,895	40.6%	0.37	1.10	7.5%	7.5%	7.6%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.36	1.53	\$3,564	29.2%	1.32	1.03	5.7%	5.6%	5.8%
Keppel DC REIT	KDCREIT SP	Add	1.93	2.63	\$2,351	36.1%	1.33	1.45	5.3%	5.6%	5.9%
Mapletree Industrial Trust	MINT SP	Add	2.56	2.97	\$4,908	38.4%	1.88	1.36	5.1%	5.4%	5.6%
Mapletree Logistics Trust	MLT SP	Add	1.71	2.05	\$5,824	37.2%	1.47	1.16	5.1%	5.1%	5.1%
Sabana Shariah	SSREIT SP	NR	0.45	NA	\$352	33.4%	0.51	0.88	na	na	na
Simple Average						35.7%		1.25	5.9%	6.1%	6.2%
Office											
Keppel REIT	KREIT SP	Add	1.08	1.29	\$2,858	37.9%	1.33	0.81	5.4%	5.5%	5.5%
OUE Commercial REIT	OUECT SP	Hold	0.38	0.39	\$1,452	39.4%	0.57	0.66	6.5%	6.6%	6.4%
Suntec REIT	SUN SP	Add	1.61	1.79	\$3,280	43.1%	2.13	0.76	6.2%	6.2%	6.2%
Simple Average						40.1%		0.74	6.0%	6.1%	6.1%
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	2.07	2.57	\$9,734	40.6%	2.07	1.00	5.3%	5.4%	5.6%
Frasers Centrepoint Trust	FCT SP	Add	2.28	2.75	\$2,752	33.3%	2.31	0.99	5.5%	5.6%	5.7%
Lendlease Global Commercial REIT	LREIT SP	Add	0.81	1.02	\$1,300	40.0%	0.78	1.03	3.9%	6.2%	6.4%
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.89	2.18	\$7,014	33.8%	1.74	1.09	5.0%	5.2%	5.3%
SPH REIT	SPHREIT SP	Hold	0.92	0.95	\$1,822	30.3%	0.91	1.01	5.8%	5.7%	5.9%
Starhill Global REIT	SGREIT SP	Add	0.59	0.66	\$929	36.1%	0.80	0.73	6.5%	6.8%	7.2%
Simple Average						35.7%		0.97	5.3%	5.8%	6.0%
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	1.16	NA	\$1,388	34.7%	1.55	0.75	7.9%	8.5%	8.7%
Elite Commercial REIT	ELITE SP	Add	0.56	0.76	\$306	41.9%	0.62	0.90	9.0%	9.6%	9.7%
Manulife US REIT	MUST SP	Add	0.49	0.78	\$862	42.8%	0.67	0.72	10.6%	11.0%	11.1%
Sasseur REIT	SASSR SP	Add	0.76	1.06	\$657	26.5%	0.96	0.79	9.7%	10.1%	10.5%
Simple Average						38.3%		0.83	0.09	0.10	0.10
Healthcare											
Parkway Life REIT	PREIT SP	Hold	4.62	5.06	\$1,982	32.5%	2.41	1.92	3.1%	3.1%	3.2%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS
 NR estimates are based on Bloomberg consensus forecasts

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	120.9	120.7	129.1	132.4	135.2
Other Revenues	0.0	0.0	0.0	0.0	0.0
Gross Property Revenue	120.9	120.7	129.1	132.4	135.2
Total Property Expenses	(8.4)	(9.5)	(10.4)	(10.6)	(10.8)
Net Property Income	112.5	111.2	118.7	121.8	124.5
General And Admin. Expenses	0.0	0.0	0.0	0.0	0.0
Management Fees	(12.6)	(12.9)	(14.5)	(15.1)	(15.5)
Trustee's Fees	(3.7)	(3.4)	(4.1)	(4.7)	(4.9)
Other Operating Expenses	(1.2)	0.0	0.0	0.0	0.0
EBITDA	94.9	95.0	100.1	102.0	104.1
Depreciation And Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	94.9	95.0	100.1	102.0	104.1
Net Interest Income	(5.2)	(4.7)	(5.4)	(5.9)	(6.3)
Associates' Profit	0.0	0.0	0.0	0.0	0.0
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items	6.7	245.3	0.0	286.9	0.0
Pre-tax Profit	96.4	335.6	94.8	383.0	97.8
Taxation	(9.2)	(8.9)	(6.5)	(6.6)	(6.7)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Profit	87.2	326.8	88.2	376.4	91.1
Distributable Profit	83.4	85.2	85.8	87.2	88.9

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Pre-tax Profit	96.39	335.64	94.77	383.01	97.80
Depreciation And Non-cash Adj.	5.23	4.68	5.37	5.87	6.33
Change In Working Capital	0.62	(2.35)	1.14	1.28	0.65
Tax Paid	(5.07)	(5.53)	(6.54)	(6.61)	(6.67)
Others	(6.86)	(243.37)	0.00	(286.91)	0.00
Cashflow From Operations	90.31	89.09	94.73	96.64	98.10
Capex	(4.58)	(11.69)	(6.80)	(56.80)	(86.80)
Net Investments And Sale Of FA	(24.00)	(63.30)	(93.40)	0.00	0.00
Other Investing Cashflow	0.01	0.00	0.08	0.22	0.30
Cash Flow From Investing	(28.58)	(74.99)	(100.13)	(56.58)	(86.50)
Debt Raised/(repaid)	25.71	79.08	143.40	80.00	90.00
Equity Raised/(Repaid)	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(82.04)	(85.18)	(85.81)	(87.20)	(88.92)
Cash Interest And Others	(5.13)	(3.87)	(5.44)	(6.09)	(6.63)
Cash Flow From Financing	(61.46)	(9.98)	52.15	(13.29)	(5.54)
Total Cash Generated	0.27	4.12	46.75	26.76	6.06
Free Cashflow To Firm	61.74	14.10	(5.31)	40.28	11.90
Free Cashflow To Equity	82.35	89.33	132.64	114.19	95.27

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Investments	1,991	2,291	2,391	2,735	2,821
Intangible Assets	0	0	0	0	0
Other Long-term Assets	4	15	15	15	15
Total Non-current Assets	1,995	2,306	2,406	2,750	2,837
Total Cash And Equivalents	23	26	74	101	107
Inventories	0	0	0	0	0
Trade Debtors	18	13	19	20	20
Other Current Assets	31	1	1	1	1
Total Current Assets	72	39	94	121	128
Trade Creditors	27	22	30	31	32
Short-term Debt	163	95	193	209	228
Other Current Liabilities	3	1	1	1	1
Total Current Liabilities	193	118	223	241	261
Long-term Borrowings	629	731	742	806	877
Other Long-term Liabilities	62	62	62	62	62
Total Non-current Liabilities	691	793	804	868	939
Shareholders' Equity	1,184	1,435	1,473	1,762	1,765
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds					
Total Equity	1,184	1,435	1,473	1,762	1,765

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	4.92%	(0.15%)	6.98%	2.50%	2.17%
NPI Growth	3.98%	(1.15%)	6.75%	2.55%	2.22%
Net Property Income Margin	93.1%	92.2%	92.0%	92.0%	92.0%
DPS Growth	4.55%	2.10%	0.74%	1.62%	1.96%
Gross Interest Cover	18.13	20.29	18.40	16.74	15.71
Effective Tax Rate	9.51%	2.64%	6.90%	1.72%	6.82%
Net Dividend Payout Ratio	95.6%	26.1%	97.3%	23.2%	97.6%
Current Ratio	0.37	0.33	0.42	0.50	0.49
Quick Ratio	0.37	0.33	0.42	0.50	0.49
Cash Ratio	0.12	0.22	0.33	0.42	0.41
Return On Average Assets	4.3%	14.8%	3.6%	14.0%	3.1%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Occupancy (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Assets under management (S\$m)	1,991.0	2,290.8	2,391.0	2,734.7	2,821.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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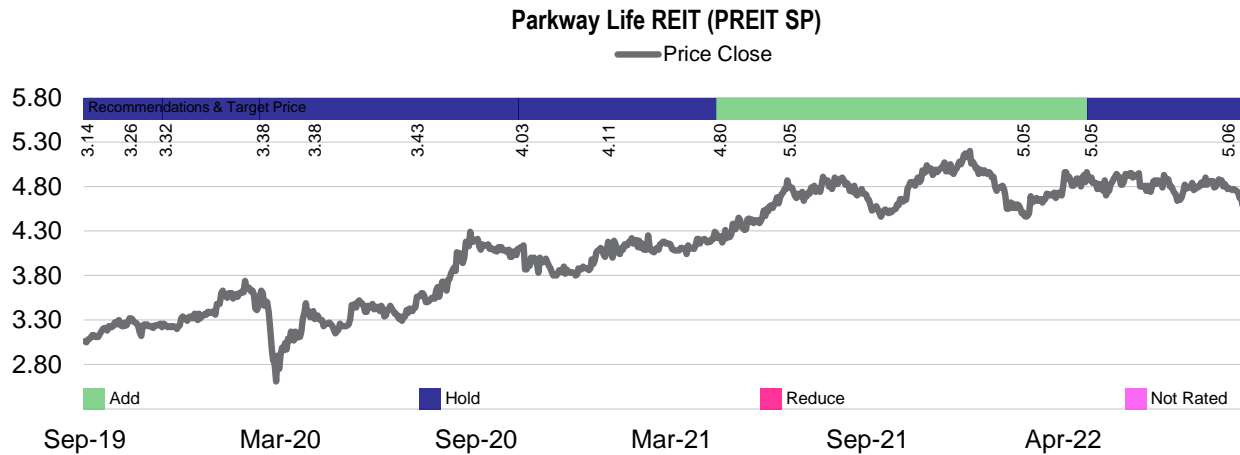
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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