

# Singapore Company Update

## Prime US REIT

Bloomberg: PRIME SP | Reuters: PRIE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Feb 2024

### FULLY VALUED

Last Traded Price (22 Feb 2024): US\$0.132 (STI : 3,222.94)

Price Target 12-mth: US\$0.07 (47% downside)

#### Analysts

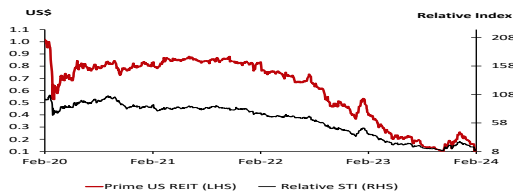
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#### What's New

- 2H23 DPU was 0.25 UScts; announces 1 for 10 bonus issue, DPU will drop on a bigger share base, all else constant
- Noted good leasing momentum in 4Q23; decline in asset value by <10% is better-than-expected
- Watching for refinancing of expiring debt in FY24 and how its deleveraging target of US\$100m pans out
- Maintain FULLY VALUED; TP of US\$0.07

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2022A	2023A	2024F	2025F
Gross Revenue	163	160	155	157
Net Property Inc	97.9	93.6	93.7	95.6
Total Return	(26.9)	(116)	49.5	50.3
Distribution Inc	77.2	57.8	52.3	53.1
EPU (US cts.)	(2.3)	(9.7)	4.17	4.24
EPU Gth (%)	nm	(329)	nm	2
DPU (US cts.)	6.55	2.71	0.44	0.45
DPU Gth (%)	(3)	(59)	(84)	2
NAV per shr (US cts.)	75.3	60.0	64.1	68.2
PE (X)	nm	nm	3.2	3.1
Distribution Yield (%)	49.6	20.5	3.3	3.4
P/NAV (x)	0.2	0.2	0.2	0.2
Aggregate Leverage (%)	41.9	48.2	47.8	46.8
ROAE (%)	(2.9)	(14.4)	6.7	6.4

Distn. Inc Chng (%)			2	2
Consensus DPU (US)			4.0	3.8
Other Broker Recs:	B: 3	S: 0	H: 1	

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

### Different, yet the same

#### Investment Thesis:

**Positioned for return-to-office trends in the US, albeit rocky recovery.** PRIME US REIT (PRIME)'s well-diversified portfolio of class A US office assets in submarkets with an influx of new residents and employment, is positioned to benefit from return-to-office trends in the US, albeit with a rocky recovery.

**High gearing and refinancing risks in 2024.** PRIME's gearing risks remains as gearing spiked to 48.4% post asset valuation decline. Meanwhile, refinancing risks remain in 2024, especially for the US office sector, should the credit crunch last longer than expected. PRIME has a US\$600m debt facility expiring in Jul 2024.

**Declining occupancy continues to weigh on portfolio performance.** PRIME's portfolio occupancy has been on a declining trend and will likely weigh down on portfolio performance should backfilling take longer than expected. We remain hopeful that the green shoots of increasing leasing discussions could lead to a turnaround in the US office sector's outlook.

**Maintain FULLY VALUED; TP of US\$0.07.** We maintain our FULLY VALUED rating and TP of US\$0.07. We pegged our TP to 0.11x P/NAV (we have yet to adjust for the bonus issue in our forecast). PRIME has adopted a different capital preservation strategy compared to its peers. While it has not suspended distributions, the bonus issue will result in a lower per unit distribution, all else constant. Key leverage risk is its US\$600m debt facility that is expiring in Jul24 and gearing (albeit remained within MAS limits) at 48.4% is a little too high for comfort, in our view. We continue to watch for re-rating catalysts, such as i) stronger signs of a recovery in the US office market, ii) the Fed pausing/cutting interest rates, and iii) an improvement in macroeconomic sentiment/outlook

#### Key Risks

**US averts a recession and economic outlook turns positive.**

Headwinds will be largely reduced should the US avert a recession and the economic outlook turns positive.

**A faster-than-expected turnaround of US office sector.**

Corporations are increasingly implementing the return-to-work policy. The US office could recover faster than expected if return to work trend picks up pace.

#### At A Glance

Issued Capital (m shrs)	1,184
Mkt. Cap (US\$m/US\$m)	156 / 156
Major Shareholders (%)	
KBS REIT PROPERTIES	18.2
Keppel Corp Ltd	6.2
STEPPE INVESTMENTS P	5.2
Free Float (%)	65.4
3m Avg. Daily Val (US\$m)	1.1
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

## WHAT'S NEW

### Different, yet the same

#### FY23 Distributable Income (DI) in line; asset values holding up better-than-expected;

- PRIME declared 2H23 DPU of 0.25 UScts (10% of DI) vs 3.03 UScts in 2H22, owing to capital preservation needs.
- In addition, it has declared a bonus share issue of 1 for 10 which translates to 1.03 UScts (based on last traded share price on 20 Feb 2024). While management highlighted that shareholder will receive c.3.74 UScts (incl bonus issue) in FY23, the effect of the bonus issue will result in a lower share price / potential future DPU once it goes ex-entitlement, all else constant.
- FY23 DI fell 18%, in line with our estimates, largely due to PRIME raising management fees paid in cash from 20% to 100% and higher interest cost. 4Q23 DI fell 6% q-o-q to US\$13.9m.
- 4Q23 revenue fell 1.2% y-o-y (-0.3% q-o-q) but NPI increased 0.3% y-o-y (-1.7% q-o-q).
- Gearing increased to 48.4% from 43.7% in 3Q23 as portfolio valuation declined by 9% y-o-y. Average cost of debt stayed flat q-o-q at 4%.
- The drop in valuation was in fact lower-than-expected. The latest portfolio valuation saw an average cap rate expansion of 54bps. Cap rate expansion ranged from 0bps to 100bps, except for 101 South Hanley and Promenade I&II, which saw cap rate compression of 75bps and 50bps respectively. Assets with the largest decline in valuation were One Washingtonian (-36% y-o-y), Sorrento Towers (-16%) and 222 Main (-11% y-o-y).

#### Portfolio saw good leasing momentum in 4Q23 but expect portfolio occupancy to decline following Sodexo's vacate.

- Operationally, PRIME reported a relatively stable quarter with some pick-up in leasing momentum.
- Portfolio occupancy improved marginally to 85.4% from 85% in 3Q23, held up by higher occupancies at Tower 909 (+3.7ppt q-o-q to 91.5%) and One Washingtonian Center (+6.1 ppt q-o-q to 86.3%). Park Tower saw a decline of 2.7ppts q-o-q to 72.5%.
- 2024 portfolio occupancy is expected to decline with the departure of one of its top 10 tenants, Sodexo at One Washingtonian.

- In 4Q23, PRIME completed 304ksqft of leases (double that of 3Q23), of which, around half were renewals and half new leases (including expansions).
- 4Q23 rental reversions were +9.6%.
- Prime highlighted there's good momentum on renewals and backfills for upcoming 2024 lease expiries at Promenade and 101 South Hanley and there are notable leasing discussions underway at One Washingtonian Center and Park Tower albeit with relatively long lead times.

#### Target to deleverage by US\$100m in 2024; all eyes on refinancing of debt expiring in July 2024.

- As part its efforts to be prudent on capital management, PRIME targets to execute up to US\$100m of deleveraging in 2024 and is currently holding constructive refinancing discussions with lenders of its US\$600m credit facilities (outstanding of US\$478m) due in July 2024.
- On its distributions going forward, the Manager will evaluate PRIME's distribution policy dynamically and periodically. PRIME continues to focus on leasing (both retaining and backfilling its tenants) and adopts a strategy to focus on net effective rents (lower capex deals) wherever possible.
- In addition, management looks for potential deleveraging strategies and remains prudent in the use of capital.

**Maintain FULLY VALUED rating; TP of US\$0.07.** We maintain our FULLY VALUED rating; TP of US\$0.07. PRIME has adopted a different capital preservation strategy compared to its peers. While it has not suspended distributions, the cash payout is minute (at 10% payout). All eyes remain on two key major factors i) upcoming refinancing of US\$600m credit facilities and ii) efforts to deleverage. Current gearing at 48.4%, though within the regulatory limits of 50% (with ICR of > 2.5x), it is a little too high for comfort. As such, we believe leverage risks remains despite a lower payout.

### Company Background

Prime US REIT (PRIME) is a pure-play US office REIT listed in Asia. Its portfolio consists of 11 class A freehold prime office assets located largely in Denver, Salt Lake City, Atlanta, Washington DC (Suburban Maryland and Virginia), and the San Francisco Bay Area with an aggregate net lettable area of around 3.4m sqft.

### Results summary

Summary of results (US\$m)	4Q2023	3Q2023	%q-o-q	4Q2022	% y-o-y	FY2023	FY2022	% y-o-y
Revenue	40.1	40.2	-0.3%	40.6	-1.2%	159.8	163.0	-2.0%
NPI	23.0	23.4	-1.7%	22.9	0.3%	93.6	97.9	-4.5%
DI	13.9	14.7	-5.7%	16.6	-16.4%	57.8	77.2	-25.0%
DI (like for like - 100% cash)	13.9	14.7	-5.7%	15.2	-8.9%	57.8	70.9	-18.4%
DPU (est)	0.25	1.24	-79.8%	1.40	-82.1%	2.71	6.55	-58.6%
DPU (est) (like for like - 100% cash)	0.25	1.24	-79.8%	1.28	-80.5%	2.71	6.01	-54.9%
Portfolio occupancies (%)	85.4%	85.0%	+0.4 ppt	89.1%	-3.7 ppt			
Rental reversions	9.6%	-2.0%	+11.6 ppt	20.2%	-10.6 ppt			
WALE (years)	3.9	3.9	-	4.1	(0.2)			
Gearing (%)	48.4%	43.7%	+4.7 ppt	42.1%	+6.3 ppt			
Av cost of debt (%)	4.0%	4.0%	0 ppt	3.3%	+0.7 ppt			
ICR (x)	3.1	3.2	(0.1)	4.1	(1.0)			
Hedging Ratio	79%	78%	+1 ppt	82%	-3 ppt			
Leases expiring in FY2024	10.8%	11.2%	-0.4 ppt	13.2%	-2.4 ppt			
Leases expiring in FY2025	16.3%	18.5%	-2.2 ppt	18.2%	-1.9 ppt			

\* quarterly DPU are estimated

Source: Company, DBS Bank Ltd

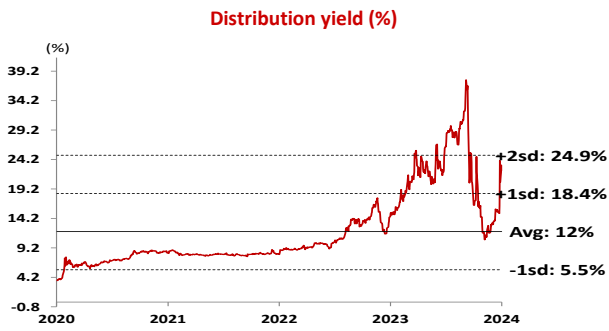
### Interim Income Statement (US\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	81.2	79.5	80.3	(1.1)	1.1
Property expenses	(34.1)	(32.3)	(33.9)	(0.4)	5.1
Net Property Income	47.1	47.2	46.4	(1.5)	(1.6)
Other Operating expenses	(5.2)	(4.4)	(4.2)	(18.2)	(3.2)
Other Non Opg (Exp)/Inc	10.8	(1.6)	(10.0)	nm	528.2
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(11.5)	(13.6)	(14.4)	(25.4)	(6.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Net Income</b>	<b>41.3</b>	<b>27.6</b>	<b>17.8</b>	<b>(56.9)</b>	<b>(35.5)</b>
Tax	18.3	0.0	0.0	nm	-
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>59.6</b>	<b>27.6</b>	<b>17.8</b>	<b>(70.2)</b>	<b>(35.5)</b>
Total Return	(84.1)	27.6	(143)	(70.5)	N/A
Non-tax deductible Items	120	1.65	172	43.4	10,350.5
Net Inc available for Dist.	35.8	29.2	28.6	(20.2)	(2.1)
<b>Ratio (%)</b>					
Net Prop Inc Margin	58.0	59.4	57.7		
Dist. Payout Ratio	100.0	100.0	100.0		

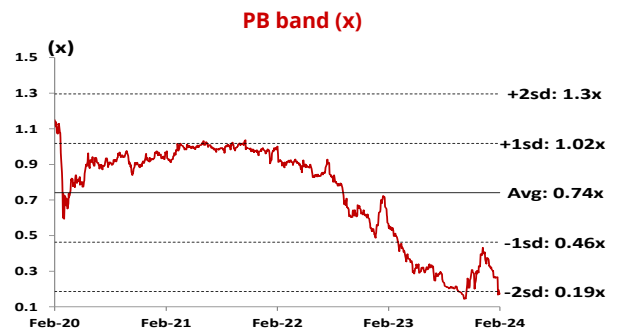
Source of all data: Company, DBS Bank Ltd

Prime US REIT

Historical Distribution yield and PB band



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



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

**Income Statement (US\$m)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	157	163	160	155	157
Property expenses	(56.0)	(65.1)	(66.2)	(61.8)	(61.6)
<b>Net Property Income</b>	<b>101</b>	<b>97.9</b>	<b>93.6</b>	<b>93.7</b>	<b>95.6</b>
Other Operating expenses	(9.8)	(10.7)	(8.6)	(7.6)	(7.9)
Other Non Opg (Exp)/Inc	16.2	37.3	(11.5)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(17.0)	(21.6)	(28.0)	(31.1)	(31.8)
Exceptional Gain/(Loss)	(17.2)	(144)	(161)	0.0	0.0
<b>Net Income</b>	<b>72.9</b>	<b>(40.8)</b>	<b>(116)</b>	<b>55.0</b>	<b>55.9</b>
Tax	(4.7)	13.9	(0.1)	(5.5)	(5.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>68.2</b>	<b>(26.9)</b>	<b>(116)</b>	<b>49.5</b>	<b>50.3</b>
Total Return	68.2	(26.9)	(116)	49.5	50.3
Non-tax deductible Items	7.41	104	174	2.82	2.84
Net Inc available for Dist.	75.6	77.2	57.8	52.3	53.1
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	9.2	4.0	(2.0)	(2.7)	1.1
N Property Inc Gth (%)	6.0	(2.7)	(4.5)	0.2	2.0
Net Inc Gth (%)	193.8	nm	(330.3)	nm	1.6
Dist. Payout Ratio (%)	100.0	100.0	100.0	10.0	10.0
Net Prop Inc Margins (%)	64.2	60.1	58.5	60.3	60.8
Net Income Margins (%)	43.5	(16.5)	(72.5)	31.8	32.0
Dist to revenue (%)	48.2	47.3	36.2	33.6	33.8
Managers & Trustee's fees	6.2	6.6	5.4	4.9	5.0
ROAE (%)	7.2	(2.9)	(14.4)	6.7	6.4
ROA (%)	4.4	(1.7)	(7.6)	3.4	3.3
ROCE (%)	5.8	5.5	5.8	5.5	5.4
Int. Cover (x)	5.4	4.0	3.0	2.8	2.8

Source: Company, DBS Bank Ltd

**Interim Income Statement (US\$m)**

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Gross revenue	84.7	81.8	81.2	79.5	80.3
Property expenses	(30.3)	(31.0)	(34.1)	(32.3)	(33.9)
Net Property Income	54.4	50.8	47.1	47.2	46.4
Other Operating	(5.2)	(5.5)	(5.2)	(4.4)	(4.2)
Other Non Opg (Exp)/Inc	7.64	26.4	10.8	(1.6)	(10.0)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.5)	(10.1)	(11.5)	(13.6)	(14.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>47.3</b>	<b>61.6</b>	<b>41.3</b>	<b>27.6</b>	<b>17.8</b>
Tax	(0.8)	(4.5)	18.3	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>46.5</b>	<b>57.2</b>	<b>59.6</b>	<b>27.6</b>	<b>17.8</b>
Total Return	29.3	57.2	(84.1)	27.6	(143)
Non-tax deductible Items	10.8	(15.9)	120	1.65	172
Net Inc available for Dist.	40.2	41.3	35.8	29.2	28.6
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	17	(3)	(1)	(2)	1
N Property Inc Gth (%)	17	(7)	(7)	0	(2)
Net Inc Gth (%)	20	23	4	(54)	(36)
Net Prop Inc Margin (%)	64.2	62.1	58.0	59.4	57.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Source: Company, DBS Bank Ltd

**Balance Sheet (US\$m)**

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	1,653	1,542	1,408	1,428	1,444
Other LT Assets	1.58	30.0	15.7	15.7	15.7
Cash	13.9	11.6	11.8	35.9	83.6
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1.83	3.86	4.26	16.1	16.3
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	2.65	1.46	4.43	4.43	4.43
<b>Total Assets</b>	<b>1,673</b>	<b>1,589</b>	<b>1,444</b>	<b>1,500</b>	<b>1,564</b>
ST Debt	0.0	0.0	478	478	478
Creditor	15.9	18.1	20.9	9.78	9.88
Other Current Liab	10.6	7.62	8.77	8.77	8.77
LT Debt	629	666	218	238	254
Other LT Liabilities	26.4	3.95	4.36	4.36	4.36
Unit holders' funds	991	894	714	761	809
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,673</b>	<b>1,589</b>	<b>1,444</b>	<b>1,500</b>	<b>1,564</b>
Non-Cash Wkg. Capital	(22.0)	(20.4)	(21.0)	2.01	2.08
Net Cash/(Debt)	(615)	(654)	(685)	(680)	(649)
<b>Ratio</b>					
Current Ratio (x)	0.7	0.7	0.0	0.1	0.2
Quick Ratio (x)	0.7	0.7	0.0	0.1	0.2
Aggregate Leverage (%)	37.6	41.9	48.2	47.8	46.8

Source: Company, DBS Bank Ltd

## Prime US REIT

## Cash Flow Statement (US\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	72.9	(40.8)	(116)	55.0	55.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	(5.5)	(5.6)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.72	(2.8)	1.00	(23.0)	(0.1)
Other Operating CF	21.1	133	200	2.82	2.84
<b>Net Operating CF</b>	<b>95.7</b>	<b>89.2</b>	<b>85.6</b>	<b>29.3</b>	<b>53.0</b>
Net Invnt in Properties	(260)	(29.5)	(24.4)	(19.8)	(16.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts 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	0.0	(0.6)	0.09	0.0	0.0
<b>Net Investing CF</b>	<b>(260)</b>	<b>(30.1)</b>	<b>(24.3)</b>	<b>(19.8)</b>	<b>(16.0)</b>
Distribution Paid	(69.4)	(76.9)	(64.3)	(5.2)	(5.3)
Chg in Gross Debt	147	34.8	29.8	19.8	16.0
New units issued	80.0	0.0	0.0	0.0	0.0
Other Financing CF	(15.0)	(19.3)	(26.6)	0.0	0.0
<b>Net Financing CF</b>	<b>143</b>	<b>(61.3)</b>	<b>(61.1)</b>	<b>14.5</b>	<b>10.7</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(22.1)	(2.3)	0.17	24.1	47.7
Operating CFPS (US cts.)	8.03	7.75	7.12	4.41	4.48
Free CFPS (US cts.)	(14.1)	5.03	5.15	0.81	3.12

Source: Company, DBS Bank Ltd

## Target Price &amp; Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 May 23	0.21	0.33	BUY
2:	10 Aug 23	0.20	0.18	HOLD
3:	16 Feb 24	0.12	0.07	FULLY VALUED

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

Source: DBS Bank Ltd

Analysts: Rachel TAN

Derek TAN

DBS Group Research 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

Completed Date: 23 Feb 2024 06:56:52 (SGT)

Dissemination Date: 23 Feb 2024 07:12:48 (SGT)

Sources for all charts and tables are DBS Bank Ltd unless otherwise specified.

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