

# 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

16 Feb 2024

### FULLY VALUED (Downgrade from HOLD)

Last Traded Price (15 Feb 2024): US\$0.101 (STI : 3,176.69)  
Price Target 12-mth: US\$0.07 (31% downside) (Prev US\$0.18)

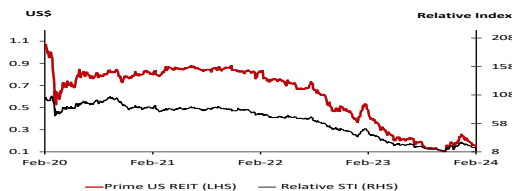
#### Analysts

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#### What's New

- Downgrade to FULLY VALUED; lower TP to US\$0.07, pegged to 0.11x P/NAV (assuming lower NAV)
- Following its peer taking a hard stance in a surprise move to suspend distributions despite its financial metrics falling within limits, there could be potential domino impact on PRIME
- As such, we are taking a pre-emptive stance prior to PRIME releasing its results given its weaker financial standing
- All eyes on valuation adjustments in the upcoming results

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2022A	2023F	2024F	2025F
Gross Revenue	163	158	155	157
Net Property Inc	97.9	94.9	93.7	95.6
Total Return	(26.9)	53.0	48.8	49.5
Distribution Inc	77.2	56.1	51.5	52.2
EPU (US cts.)	(2.3)	4.47	4.11	4.17
EPU Gth (%)	nm	nm	(8)	1
DPU (US cts.)	6.55	4.73	4.34	4.40
DPU Gth (%)	(3)	(28)	(8)	1
NAV per shr (US cts.)	75.3	75.3	75.3	75.3
PE (X)	nm	2.3	2.5	2.4
Distribution Yield (%)	64.9	46.8	43.0	43.6
P/NAV (x)	0.1	0.1	0.1	0.1
Aggregate Leverage (%)	41.9	43.4	44.1	44.6
ROAE (%)	(2.9)	5.9	5.5	5.5

Distn. Inc Chng (%): 0 0 0  
Consensus DPU (US): 7.10 7.20 7.40  
Other Broker Recs: B: 5 S: 0 H: 0

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

### Potential domino effect

#### Investment Thesis:

**Positioned for return-to-office trends in the US, albeit with a rocky recovery.** PRIME US REIT (PRIME)'s well-diversified portfolio of class A US office assets in submarkets with the in-migration of 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 currently high gearing, at above 40%, could potentially escalate into a concern should its asset valuation decline more than expected (5% asset valuation buffer to 45% gearing level and 15% buffer to 50%). The extension of debt expiry by one year to 2024 gives more time for PRIME to ride out the interest rate hike cycle. Meanwhile, refinancing risks would remain in 2024, especially for the US office sector, should the credit crunch last longer than expected.

**Declining occupancy continues to weigh down 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 cause a turnaround in the US office outlook.

**Downgrade to FULLY VALUED; lowered TP to US\$0.07.** We downgrade our rating to FULLY VALUED from HOLD previously and lower our TP to US\$0.07 from US\$0.18. We pegged our TP to 0.11x P/NAV assuming NAV could decline by another 15%. We are taking a pre-emptive stance, prior to PRIME releasing its results, on a potential domino impact from KORE's recent actions to suspend distributions for better capital management. PRIME has weaker financials and faces the risk of its gearing spiking to above the 45% MAS limit should its asset value decline by more than for its peers. 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 turn positive.

**A faster-than-expected turnaround of US office.** Corporations are increasingly implementing return-to-work policy. The US office could recover faster than expected should the return to work pick up pace.

#### At A Glance

Issued Capital (m shrs)	1,184
Mkt. Cap (US\$m/US\$m)	120 / 120
Major Shareholders (%)	
KBS REIT PROPERTIES	18.3
Keppel Corp Ltd	5.3
STEPPE INVESTMENTS P	5.3
Free Float (%)	71.1
3m Avg. Daily Val (US\$m)	1.1
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Watchlist the stock on Insights Direct to receive prompt updates

## Prime US REIT

**Company Background**

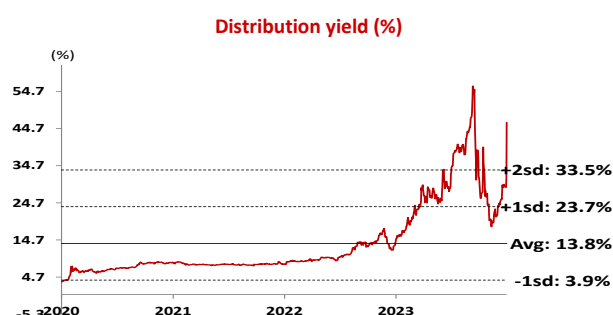
Prime US REIT (PRIME) is a pure-play US office REIT listed in Asia. Its portfolio consists of 11 class A freehold prime office assets located largely in Denver, Salt Lake City, Atlanta, Washington DC

(Suburban Maryland and Virginia), and the San Francisco Bay Area with an aggregate net lettable area of around 3.4m sqft.

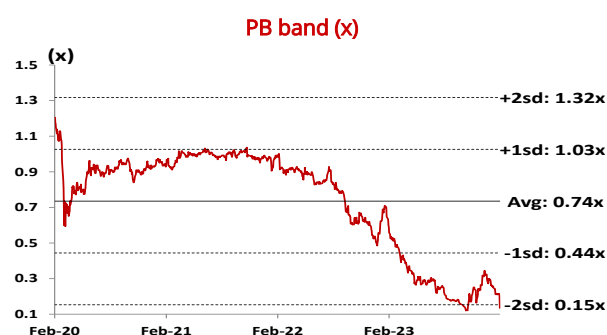
**Interim Income Statement (US\$m)**

FY Dec	1H2022	2H2022	1H2023	% chg yoy	% chg hoh
Gross revenue	81.8	81.2	79.5	(2.9)	(2.1)
Property expenses	(31.0)	(34.1)	(32.3)	4.2	(5.3)
Net Property Income	50.8	47.1	47.2	(7.2)	0.1
Other Operating expenses	(5.5)	(5.2)	(4.4)	(20.9)	(15.5)
Other Non Opg (Exp)/Inc	26.4	10.8	(1.6)	nm	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(10.1)	(11.5)	(13.6)	(34.6)	(18.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Net Income</b>	<b>61.6</b>	<b>41.3</b>	<b>27.6</b>	<b>(55.2)</b>	<b>(33.1)</b>
Tax	(4.5)	18.3	0.0	nm	nm
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>57.2</b>	<b>59.6</b>	<b>27.6</b>	<b>(51.8)</b>	<b>(53.7)</b>
Total Return	57.2	(84.1)	27.6	(51.8)	nm
Non-tax deductible Items	(15.9)	120	1.65	nm	(98.6)
Net Inc available for Dist.	41.3	35.8	29.2	(29.3)	(18.4)
<b>Ratio (%)</b>					
Net Prop Inc Margin	62.1	58.0	59.4		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank Ltd

**Historical Distribution Yield and PB band**

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



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

## Prime US REIT

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

<b>FY Dec</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Gross revenue	157	163	158	155	157
Property expenses	(56.0)	(65.1)	(62.8)	(61.8)	(61.6)
<b>Net Property Income</b>	<b>101</b>	<b>97.9</b>	<b>94.9</b>	<b>93.7</b>	<b>95.6</b>
Other Operating expenses	(9.8)	(10.7)	(8.7)	(8.2)	(8.4)
Other Non Opg (Exp)/Inc	16.2	37.3	0.0	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)	(27.3)	(31.4)	(32.2)
Exceptional Gain/(Loss)	(17.2)	(144)	0.0	0.0	0.0
<b>Net Income</b>	<b>72.9</b>	<b>(40.8)</b>	<b>58.9</b>	<b>54.2</b>	<b>55.0</b>
Tax	(4.7)	13.9	(5.9)	(5.4)	(5.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>68.2</b>	<b>(26.9)</b>	<b>53.0</b>	<b>48.8</b>	<b>49.5</b>
Total Return	68.2	(26.9)	53.0	48.8	49.5
Non-tax deductible Items	7.41	104	3.08	2.74	2.75
Net Inc available for Dist.	75.6	77.2	56.1	51.5	52.2
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	9.2	4.0	(3.3)	(1.4)	1.1
N Property Inc Gth (%)	6.0	(2.7)	(3.1)	(1.2)	2.0
Net Inc Gth (%)	193.8	nm	nm	(8.0)	1.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	64.2	60.1	60.2	60.3	60.8
Net Income Margins (%)	43.5	(16.5)	33.6	31.4	31.5
Dist to revenue (%)	48.2	47.3	35.6	33.1	33.2
Managers & Trustee's fees	6.2	6.6	5.5	5.3	5.4
ROAE (%)	7.2	(2.9)	5.9	5.5	5.5
ROA (%)	4.4	(1.7)	3.3	3.0	3.0
ROCE (%)	5.8	5.5	5.0	4.8	4.9
Int. Cover (x)	5.4	4.0	3.2	2.7	2.7

Source: Company, DBS Bank Ltd

## Prime US REIT

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

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Gross revenue	72.1	84.7	81.8	81.2	79.5
Property expenses	(25.7)	(30.3)	(31.0)	(34.1)	(32.3)
Net Property Income	46.3	54.4	50.8	47.1	47.2
Other Operating	(4.5)	(5.2)	(5.5)	(5.2)	(4.4)
Other Non Opg (Exp)/Inc	8.51	7.64	26.4	10.8	(1.6)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.5)	(9.5)	(10.1)	(11.5)	(13.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>42.8</b>	<b>47.3</b>	<b>61.6</b>	<b>41.3</b>	<b>27.6</b>
Tax	(3.9)	(0.8)	(4.5)	18.3	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>38.9</b>	<b>46.5</b>	<b>57.2</b>	<b>59.6</b>	<b>27.6</b>
Total Return	38.9	29.3	57.2	(84.1)	27.6
Non-tax deductible Items	(3.4)	10.8	(15.9)	120	1.65
Net Inc available for Dist.	35.4	40.2	41.3	35.8	29.2
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	0	17	(3)	(1)	(2)
N Property Inc Gth (%)	(3)	17	(7)	(7)	0
Net Inc Gth (%)	(3)	20	23	4	(54)
Net Prop Inc Margin (%)	64.3	64.2	62.1	58.0	59.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

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

FY Dec	2021A	2022A	2023F	2024F	2025F
Investment Properties	1,653	1,542	1,559	1,578	1,594
Other LT Assets	1.58	30.0	30.0	30.0	30.0
Cash	13.9	11.6	10.9	11.0	10.9
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	16.4	16.1	16.3
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	2.65	1.46	1.46	1.46	1.46
<b>Total Assets</b>	<b>1,673</b>	<b>1,589</b>	<b>1,617</b>	<b>1,637</b>	<b>1,653</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	15.9	18.1	9.92	9.78	9.88
Other Current Liab	10.6	7.62	7.62	7.62	7.62
LT Debt	629	666	702	722	738
Other LT Liabilities	26.4	3.95	3.95	3.95	3.95
Unit holders' funds	991	894	894	894	894
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>1,617</b>	<b>1,637</b>	<b>1,653</b>
Non-Cash Wkg. Capital	(22.0)	(20.4)	0.28	0.19	0.25
Net Cash/(Debt)	(615)	(654)	(691)	(711)	(727)
<b>Ratio</b>					
Current Ratio (x)	0.7	0.7	1.6	1.6	1.6
Quick Ratio (x)	0.7	0.7	1.6	1.6	1.6
Aggregate Leverage (%)	37.6	41.9	43.4	44.1	44.6

Source: Company, DBS Bank Ltd

## Prime US REIT

## Cash Flow Statement (US\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Income	72.9	(40.8)	58.9	54.2	55.0
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	(5.9)	(5.4)	(5.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.72	(2.8)	(20.7)	0.09	(0.1)
Other Operating CF	21.1	133	3.08	2.74	2.75
<b>Net Operating CF</b>	<b>95.7</b>	<b>89.2</b>	<b>35.4</b>	<b>51.6</b>	<b>52.1</b>
Net Invnt in Properties	(260)	(29.5)	(16.4)	(19.8)	(16.0)
Other Invnts (net)	0.0	0.0	0.0	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	0.0	(0.6)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(260)</b>	<b>(30.1)</b>	<b>(16.4)</b>	<b>(19.8)</b>	<b>(16.0)</b>
Distribution Paid	(69.4)	(76.9)	(56.1)	(51.5)	(52.2)
Chg in Gross Debt	147	34.8	36.4	19.8	16.0
New units issued	80.0	0.0	0.0	0.0	0.0
Other Financing CF	(15.0)	(19.3)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>143</b>	<b>(61.3)</b>	<b>(19.7)</b>	<b>(31.7)</b>	<b>(36.2)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(22.1)	(2.3)	(0.7)	0.09	(0.1)
Operating CFPS (US cts.)	8.03	7.75	4.73	4.34	4.40
Free CFPS (US cts.)	(14.1)	5.03	1.60	2.68	3.05

Source: Company, DBS Bank Ltd

## Target Price &amp; Ratings 12-mth 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:	11 May 23	0.21	0.33	BUY
2:	10 Aug 23	0.20	0.18	HOLD

Source: DBS Bank Ltd

Analysts: Rachel TAN

Derek TAN

DBS Bank Ltd 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: 16 Feb 2024 06:01:13 (SGT)

Dissemination Date: 16 Feb 2024 07:20:04 (SGT)

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