

## Singapore

**ADD** (no change)

Consensus ratings\*: Buy 4 Hold 1 Sell 0

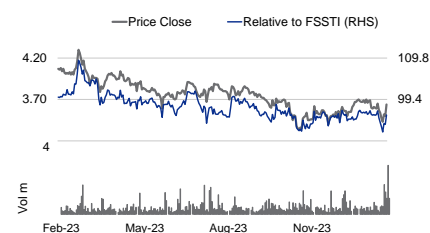
Current price:	S\$3.64
Target price:	S\$4.50
Previous target:	S\$4.50
Up/downside:	23.5%
CGS-CIMB / Consensus:	2.3%

Reuters:	PWLR.SI
Bloomberg:	PREIT SP
Market cap:	US\$1,649m
	S\$2,202m
Average daily turnover:	US\$1.29m
	S\$1.73m
Current shares o/s:	605.0m
Free float:	64.2%

\*Source: Bloomberg

### Key changes in this note

- FY24F DPU decreased by 0.021%
- FY25F DPU increased by 0.047%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.4	4.9	-12.5
Relative (%)	0.2	1.7	-7

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

### Analyst(s)



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# Parkway Life REIT

## 2HFY23: DPU growth continues

- 2H/FY23 DPU of 7.48/14.77 Scts were in line with our expectations, at 51%/99.7% of our FY23F forecasts.
- Strong Singapore, Japan revenue in 2HFY23 impacted by forex weakness.
- Reiterate Add rating, with an unchanged DDM-based TP of S\$4.50.

### 2HFY23 results highlights

Parkway Life REIT (PREIT) reported a 4.7% yoy increase in 2H23 gross revenue to S\$73.1m, due to contributions from five Japan nursing homes acquired in Sep 2022, two nursing homes added in Oct 2023, and higher rent from Singapore hospitals under the new master lease agreement in Aug 2022, but partly offset by the depreciation of the yen vs. S\$. 2H23 income available for distribution of S\$45.3m was 2.1% higher yoy, due to higher interest expense from funding of capex and new acquisitions and increased funding costs, resulting in 2H23 DPU of 7.48 Scts (+2.1% yoy). FY23 DPU was 14.77 Scts (+2.7% yoy).

### Singapore revenue lifted by higher rent under new lease agreement

PREIT's Singapore revenue/NPI accounted for 69.5%/71.1% of its total 2H23 revenue/NPI. Singapore revenue/NPI rose 8.8% yoy in 2H23 to S\$50.8m/S\$49m, due to higher rent from the Singapore hospitals under its 20-year lease agreement, which started Aug 2022.

### Weak yen vs. S\$ curtailed revenue, but offset by income hedge

Despite contributions from properties acquired in 3Q22 and Oct 23, Japan operations reported 3.6%/3.9% yoy declines in 2H23 revenue/NPI to S\$22.1m/S\$19.9m, impacted by the yen's depreciation vs. S\$. That said, PREIT remains well hedged at the distribution income level, in our view. In addition to fully funding its yen acquisitions, it also extended its yen net income hedge for another two years until 1Q29F, which provides income stability to unitholders, in our view.

### Strong balance sheet to tap growth opportunities

Gearing stood at 35.6% at end-FY23. Its interest coverage ratio (ICR) of 11.3x as at end-FY23 remained the highest amongst SREITs, while all-in interest cost averaged 1.27% in 2H23. As part of its capital management strategy, PREIT executed several interest rate swaps that will lift the proportion of its fixed rate debt from 74% to 90% by end-1Q24F. In addition, it also put in place six new debt facilities, with tenors of 3 to 6 years, largely to finance the renewal capex works at Mt Elizabeth Hospital and refinance maturing loan facilities due in FY24F-25F. This will extend its weighted average debt term from 2.8 years to 3.9 years, when the facilities are drawn down, according to management.

### Reiterate Add rating

We tweak our FY24-25F DPU estimates marginally post results. Our DDM-based TP of S\$4.50 is maintained. We like PREIT for its stability, backed by its defensive income structure with in-built rent escalation features. Re-rating catalysts include accretive acquisitions. Downside risks include deflationary periods, whereby its Singapore rent revisions would revert to 1% when PREIT's annual rent formula kicks in again, or potential cost overruns from its asset enhancement initiatives under its capex renewal exercise.

### Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue (S\$m)	130.0	147.5	150.8	153.6	159.4
Net Property Income (S\$m)	121.9	139.1	142.3	144.9	150.5
Net Profit (S\$m)	41.1	100.5	106.5	108.0	111.1
Distributable Profit (S\$m)	87.0	89.3	90.6	93.1	101.7
Core EPS (S\$)	0.14	0.17	0.18	0.18	0.18
Core EPS Growth	(3.9%)	21.7%	3.6%	1.4%	2.9%
FD Core P/E (x)	26.06	21.42	20.68	20.40	19.81
DPS (S\$)	0.14	0.15	0.15	0.15	0.17
Dividend Yield	3.95%	4.06%	4.11%	4.23%	4.62%
Asset Leverage	36.3%	35.4%	36.1%	37.1%	35.0%
BVPS (S\$)	2.33	2.34	2.42	2.45	2.84
P/BV (x)	1.56	1.56	1.50	1.49	1.28
Recurring ROE	5.94%	7.28%	7.39%	7.32%	6.94%
% Change In DPS Estimates			(0.021%)	0.047%	
DPS/Consensus DPS (x)			1.00	1.03	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

FYE Dec (\$\$ m)	2HFY23	2HFY22	yoy % chg	hoh % chg	FY23 Cum	FY22 Cum	yoy % chg	Prev FY23F	Comments
Revenue	73.1	69.8	4.7	(1.8)	133.2	130.0	2.5	143.4	In line. 2HFY23: 51%/92.9% of our FY23F forecast
Operating costs	(12.5)	(12.4)	0.5	(7.2)	(75.9)	(25.2)	201.4	(26.3)	
EBITDA	60.6	57.4	5.6	(0.6)	57.4	104.8	(45.3)	117.1	
EBITDA margin (%)	83.0%	82.2%	-	-	43.0%	80.6%	-	81.6%	
Depn & amort.	-	-	-	-	-	-	-	-	
EBIT	60.6	57.4	5.6	(0.6)	57.4	104.8	(45.3)	117.1	
Interest expense	(5.7)	(3.5)	63.4	12.0	(8.0)	(5.8)	38.5	(7.0)	
Interest & invt inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Associates' contrib	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Exceptionals & revaln	2.4	(58.0)	-	-	(2.6)	(50.8)	(95.0)	-	Includes net change in fair value of investment properties
Pretax profit	57.3	(4.1)	1,501.1	12.5	46.9	48.2	(2.8)	110.2	
Tax	(4.3)	(3.8)	10.8	20.3	(7.4)	(7.1)	4.3	(5.6)	
Tax rate (%)	7.4%	-94.0%	-	-	15.8%	14.7%	-	5.1%	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net profit	53.1	(7.9)	768.6	11.9	39.5	41.1	(4.0)	104.6	
Distr profit	45.3	44.3	2.1	2.7	88.4	87.0	1.6	88.7	In line. 2HFY23: 51%/99.7% of our FY23F forecast
Core net profit	50.7	50.1	1.2	(3.2)	42.0	92.0	(54.3)	104.6	
DPU (cts)	7.48	7.32	2.2	2.6	14.61	14.38	1.6	14.66	In line. 2HFY23: 51%/99.7% of our FY23F forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Key earnings revisions**

FYE Dec (\$\$m)	Previous		New		% chg	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Gross revenue	142.2	141.4	150.8	153.6	6.09%	8.65%
Distribution income	90.6	93.0	90.6	93.1	-0.021%	0.047%
DPU (Scts)	14.97	15.38	14.97	15.38	-0.021%	0.047%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS



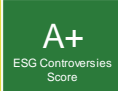




**Figure 3: SREIT peer comparison**

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)			
			as at 02 Feb 24	Price (LC) (DDM-based)					FY23F	FY24F	FY25F	
<b>Hospitality</b>												
CapitaLand Ascott Trust	CLAS SP	Add	0.97	1.29	\$2,733	38.6%	1.16	0.84	6.8%	6.9%	7.0%	
CDL Hospitality Trust	CDREIT SP	Add	1.03	1.25	\$962	36.7%	1.50	0.69	5.5%	5.7%	6.3%	
Far East Hospitality Trust	FEHT SP	Add	0.64	0.77	\$953	32.2%	0.85	0.74	6.0%	6.7%	6.9%	
Fraser's Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%	
<b>Simple Average</b>						<b>36.7%</b>		<b>0.75</b>	<b>5.8%</b>	<b>6.1%</b>	<b>6.3%</b>	
<b>Industrial</b>												
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%	
CapitaLand Ascendas REIT	CLAR SP	Add	2.87	3.06	\$9,441	37.9%	2.26	1.27	5.3%	5.4%	5.5%	
Cromwell European REIT	CERT SP	Add	1.40	2.15	\$857	37.4%	2.25	0.62	11.0%	11.1%	11.1%	
ESR-LOGOS REIT	EREIT SP	Add	0.32	0.39	\$1,842	35.7%	0.32	1.00	8.3%	8.0%	8.0%	
Fraser's Logistics & Commercial Trust	FLT SP	Add	1.11	1.27	\$3,112	30.7%	1.17	0.95	6.3%	6.0%	6.2%	
Keppel DC REIT	KDCREIT SP	Hold	1.66	1.88	\$2,140	37.4%	1.34	1.24	5.7%	5.1%	5.4%	
Mapletree Industrial Trust	MINT SP	Add	2.46	2.61	\$5,219	38.6%	1.85	1.33	5.5%	5.6%	5.8%	
Mapletree Logistics Trust	MLT SP	Add	1.53	1.88	\$5,707	38.8%	1.40	1.09	5.9%	5.6%	5.7%	
Sabana Shariah	SSREIT SP	NR	0.37	NA	\$309	34.3%	0.52	0.71	7.9%	7.9%	8.2%	
<b>Simple Average</b>						<b>36.4%</b>		<b>1.02</b>	<b>7.1%</b>	<b>6.9%</b>	<b>7.0%</b>	
<b>Office</b>												
Keppel REIT	KREIT SP	Add	0.93	1.14	\$2,620	38.9%	1.32	0.70	6.3%	6.4%	6.6%	
OUE REIT	OUEREIT SP	Hold	0.29	0.36	\$1,172	38.2%	0.60	0.48	7.4%	7.6%	7.8%	
Suntec REIT	SUN SP	Hold	1.19	1.29	\$2,592	42.3%	2.09	0.57	6.0%	5.5%	5.7%	
<b>Simple Average</b>						<b>39.8%</b>		<b>0.58</b>	<b>6.6%</b>	<b>6.5%</b>	<b>6.7%</b>	
<b>Retail</b>												
CapitaLand Integrated Commercial	CICT SP	Add	2.01	2.17	\$10,019	40.8%	2.12	0.95	5.4%	5.6%	5.7%	
Fraser's Centrepoint Trust	FCT SP	Add	2.33	2.54	\$2,990	37.2%	2.31	1.01	5.2%	5.1%	5.2%	
Lendlease Global Commercial REIT	LREIT SP	Add	0.63	0.83	\$1,101	40.6%	0.78	0.80	7.5%	6.8%	7.4%	
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.46	1.54	\$5,739	40.7%	1.81	0.81	6.6%	5.9%	5.9%	
Paragon REIT	PGNREIT SP	Hold	0.87	0.88	\$1,848	29.8%	0.91	0.96	5.3%	5.4%	5.7%	
Starhill Global REIT	SGREIT SP	Add	0.51	0.62	\$863	37.4%	0.80	0.64	7.5%	7.7%	8.0%	
<b>Simple Average</b>						<b>37.8%</b>		<b>0.86</b>	<b>6.2%</b>	<b>6.1%</b>	<b>6.3%</b>	
<b>Overseas-centric</b>												
CapitaLand China Trust	CLCT SP	NR	0.83	NA	\$1,139	42.4%	1.33	0.62	8.6%	9.2%	9.5%	
Elite Commercial REIT	ELITE SP	Add	0.28	0.49	\$206	49.6%	0.43	0.64	13.2%	14.8%	14.9%	
Manulife US REIT	MUST SP	Add	0.06	0.25	\$107	56.0%	0.40	0.15	64.7%	64.3%	63.2%	
Sasseur REIT	SASSR SP	Add	0.67	0.95	\$623	25.4%	0.85	0.79	9.2%	9.4%	9.9%	
<b>Simple Average</b>						<b>43.4%</b>		<b>0.55</b>	<b>24.0%</b>	<b>24.4%</b>	<b>24.4%</b>	
<b>Healthcare</b>												
Parkway Life REIT	PREIT SP	Add	3.64	4.50	\$1,649	35.6%	2.34	1.56	4.1%	4.1%	4.2%	

DATA AS OF 2 FEB 2024

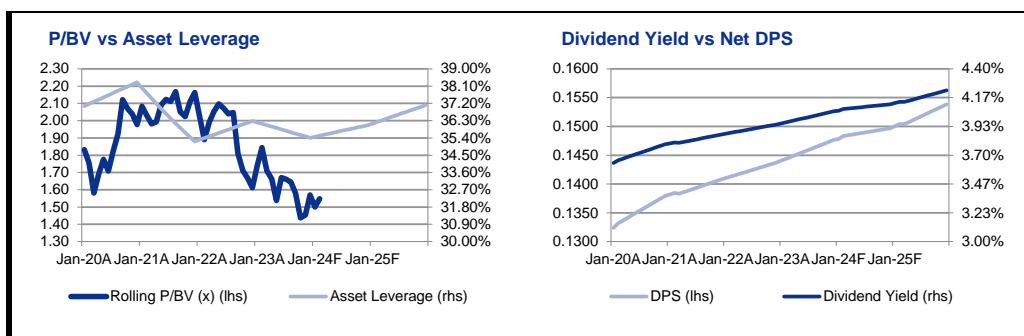
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

 <b>Refinitiv ESG Scores</b>	
     	
<b>ESG in a nutshell</b>	
<p>According to Refinitiv, PREIT scored a C in its overall ESG rankings in 2022. The score is split into Environmental (D), Social (C-) and Governance (B). PREIT scored well on ESG controversies with an A+. In 2022, PREIT collaborated with the IHH Group to address greenhouse gas (GHG) emissions from its Singapore portfolio and established targets for reducing emissions. It also partnered with its Japan asset managers on energy and emissions data collection for reporting. It established a Sustainability Steering Committee in 2017, which is supported by a Sustainability Task Force, and met its targets in 2022. PREIT’s material sustainability factors include Energy &amp; GHG emissions, climate change resilience, employee engagement and wellbeing, diversity and inclusion, training and development, compliance with laws and regulations, ethics and anti-corruption as well as sustainable investment and economic contribution and risk management.</p>	
<b>Keep your eye on</b>	<b>Implications</b>
<p>Within the Environmental pillar, PREIT’s resource use was rated D- and environmental innovation D- by Refinitiv in 2022 while in the Social pillar, it was rated low for community (D-) and CSR strategies (C).</p>	<p>We expect PREIT’s recently announced renewal capex agreement for its Singapore hospitals will likely future-proof the properties and improve the company’s ESG rankings when completed. We have not applied any premium/discount for ESG in our fundamental valuations of PREIT.</p>
<b>ESG highlights</b>	<b>Implications</b>
<p>Refinitiv ranked PREIT 84<sup>th</sup> out of 99 companies in Singapore, and 24<sup>th</sup> among real estate companies/REITs in Singapore. Although PREIT’s scores for each of the E,S and G pillars improved yoy in 2022, its rating is still impacted by low Environmental scores vs. its comparable peers. Amongst its ESG achievements, PREIT’s carbon emissions for its Singapore properties saw a 1.8% increase in energy intensity, on a like-for-like basis, due to renovation works at Parkway East Hospital involving operating theatres and conversion of certain wards to endoscopy procedure rooms while Gleneagles Hospital had a newly opened ward in late-Sep 2021. Initiatives to reduce its carbon footprint include replacement of direct current (DC) motors with electronically communicated (EC) motors, upgrading of lifts with carriable voltage and variable frequency (VVVF) drivers as well as replacement of hot water systems at the Singapore hospitals with energy-efficient air source heat pumps. In 2022, its average training hours per employee were c.35 hours, a 40.5% increase yoy, according to PREIT’s 2022 annual report.</p>	<p>We have not applied any premium/discount for ESG in our fundamental valuations of PREIT. However, as PREIT improves its E and S pillars through its newly-announced renewal capex agreement, we believe its overall ESG scores could rise.</p>
<b>Trends</b>	<b>Implications</b>
<p>PREIT’s shareholders (A), management (B) and workforce (B) have been ranked by Refinitiv as its top three best performing categories.</p>	<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

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental Revenues	130.0	147.5	150.8	153.6	159.4
Other Revenues	0.0	0.0	0.0	0.0	0.0
<b>Gross Property Revenue</b>	<b>130.0</b>	<b>147.5</b>	<b>150.8</b>	<b>153.6</b>	<b>159.4</b>
Total Property Expenses	(8.1)	(8.4)	(8.5)	(8.7)	(8.9)
<b>Net Property Income</b>	<b>121.9</b>	<b>139.1</b>	<b>142.3</b>	<b>144.9</b>	<b>150.5</b>
General And Admin. Expenses	0.0	0.0	0.0	0.0	0.0
Management Fees	(13.8)	(14.5)	(13.9)	(14.3)	(15.4)
Trustee's Fees	(3.3)	(3.0)	(3.2)	(3.4)	(3.8)
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>104.8</b>	<b>121.6</b>	<b>125.2</b>	<b>127.3</b>	<b>131.4</b>
Depreciation And Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>104.8</b>	<b>121.6</b>	<b>125.2</b>	<b>127.3</b>	<b>131.4</b>
Net Interest Income	(5.8)	(10.8)	(13.3)	(13.9)	(14.7)
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	(50.8)	(2.6)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>48.2</b>	<b>108.3</b>	<b>111.9</b>	<b>113.4</b>	<b>116.7</b>
Taxation	(7.1)	(7.8)	(5.4)	(5.5)	(5.5)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>41.1</b>	<b>100.5</b>	<b>106.5</b>	<b>108.0</b>	<b>111.1</b>
<b>Distributable Profit</b>	<b>87.0</b>	<b>89.3</b>	<b>90.6</b>	<b>93.1</b>	<b>101.7</b>

### Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Pre-tax Profit</b>	<b>48.2</b>	<b>108.3</b>	<b>111.9</b>	<b>113.4</b>	<b>116.7</b>
Depreciation And Non-cash Adj.	5.8	10.8	13.3	13.9	14.7
Change In Working Capital	2.7	11.1	(13.3)	0.7	1.3
Tax Paid	(4.1)	(4.2)	(5.4)	(5.5)	(5.5)
Others	54.2	10.1	0.0	0.0	0.0
<b>Cashflow From Operations</b>	<b>106.8</b>	<b>136.0</b>	<b>106.5</b>	<b>122.5</b>	<b>127.1</b>
Capex	(17.7)	(31.0)	(86.8)	(96.8)	(56.8)
Net Investments And Sale Of FA	(107.5)	(18.6)	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.1	0.1	0.0
<b>Cash Flow From Investing</b>	<b>(125.2)</b>	<b>(49.6)</b>	<b>(86.7)</b>	<b>(96.7)</b>	<b>(56.8)</b>
Debt Raised/(repaid)	116.5	30.2	90.0	50.0	50.0
Equity Raised/(Repaid)	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(64.3)	(88.4)	(90.6)	(93.1)	(101.7)
Cash Interest And Others	(4.5)	(9.8)	(13.4)	(14.0)	(14.7)
<b>Cash Flow From Financing</b>	<b>47.8</b>	<b>(67.9)</b>	<b>(14.0)</b>	<b>(57.0)</b>	<b>(66.4)</b>
Total Cash Generated	29.4	18.5	5.8	(31.2)	3.9
Free Cashflow To Firm	(18.4)	86.4	19.8	25.9	70.4
Free Cashflow To Equity	93.7	106.9	96.4	61.9	105.6

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Investments	2,206	2,231	2,318	2,415	2,701
Intangible Assets	0	0	0	0	0
Other Long-term Assets	62	39	39	39	39
Total Non-current Assets	2,268	2,270	2,357	2,454	2,740
Total Cash And Equivalents	40	28	36	5	9
Inventories	0	0	0	0	0
Trade Debtors	16	6	23	23	24
Other Current Assets	19	29	29	29	29
<b>Total Current Assets</b>	<b>75</b>	<b>64</b>	<b>88</b>	<b>57</b>	<b>62</b>
Trade Creditors	24	31	34	35	37
Short-term Debt	57	54	182	192	202
Other Current Liabilities	1	2	2	2	2
<b>Total Current Liabilities</b>	<b>81</b>	<b>87</b>	<b>217</b>	<b>229</b>	<b>241</b>
Long-term Borrowings	793	773	700	740	779
Other Long-term Liabilities	57	60	60	60	60
Total Non-current Liabilities	850	833	760	800	840
Shareholders' Equity	1,410	1,415	1,467	1,482	1,721
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds					
<b>Total Equity</b>	<b>1,410</b>	<b>1,415</b>	<b>1,467</b>	<b>1,482</b>	<b>1,721</b>

### Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue Growth	7.7%	13.5%	2.3%	1.8%	3.8%
NPI Growth	9.6%	14.1%	2.3%	1.9%	3.8%
Net Property Income Margin	93.8%	94.3%	94.3%	94.4%	94.4%
DPS Growth	2.14%	2.69%	1.36%	2.77%	9.28%
Gross Interest Cover	18.22	11.25	9.34	9.11	8.92
Effective Tax Rate	14.7%	7.2%	4.8%	4.8%	4.7%
Net Dividend Payout Ratio	212%	89%	85%	86%	92%
Current Ratio	0.92	0.74	0.40	0.25	0.26
Quick Ratio	0.92	0.74	0.40	0.25	0.26
Cash Ratio	0.49	0.33	0.17	0.02	0.04
Return On Average Assets	1.76%	4.30%	4.46%	4.36%	4.18%

### Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Occupancy (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Assets under management (S\$m)	2,205.9	2,231.0	2,317.8	2,414.6	2,700.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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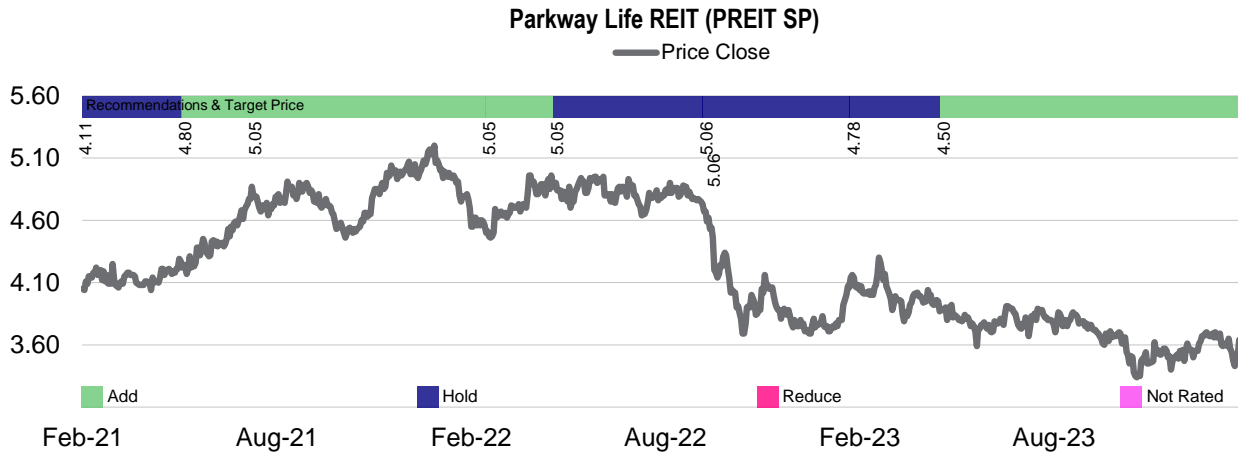
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**Spitzer Chart for stock being researched ( 2 year data )**



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