

COMPANY RESULTS

Prime US REIT (PRIME SP)

2H23: Preserving Capital But Charting A Unique Course Of Action

Portfolio occupancy inched up 0.4ppt qoq to 85.4% in 4Q23. Leasing momentum has picked up and significant leasing discussions are underway for Park Tower and One Washingtonian Center. PRIME retained US\$25.6m and payout ratio was only 10.4% in 2H23 to preserve capital. Management targets to execute up to US\$100m of deleveraging in 2024. Valuation is attractive with distribution yield at 20% for 2024 and 42% for 2025 and P/NAV at 0.22x. Maintain BUY. Target price: US\$0.45.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	yoy % Chg	Remarks
Gross Revenue	80.3	-1.1	Portfolio occupancy eased 3.7ppt yoy to 85.4%.
Net Property Income (NPI)	46.4	-1.5	Absence of lease termination income of US\$1.3m in 3Q22.
Distributable Income	28.6	-20.2	
DPU (US cents)	0.25	-91.7	Received 20% of base fee in cash and 80% in units in 2022.

Source: PRIME, UOB Kay Hian

RESULTS

- Prime US REIT (PRIME) reported DPU of 0.25 US cents for 2H23, representing a payout ratio of 10.4%. The board has declared a 1-for-10 bonus issue to acknowledge unitholders' support for PRIME's efforts to strengthen its capital position.
- **Operations started to stabilise.** Gross revenue and NPI decreased slightly by 1.1% and 1.5% yoy in 2H23 due to lower occupancy and higher property operating expenses as a result of more employees returning to work at their office premises. NPI margin narrowed by 0.4ppt yoy to 57.7% due to an absence of lease termination income (3Q22: US\$1.3m). Interest expenses increased 29% yoy in 2H23. Management has elected to receive 100% of base fee in cash for 2023.
- **Leasing momentum has picked up**, with leases for 304,100sf of office space executed in 4Q23, more than doubling on a sequential basis. Two of its top 10 tenants have renewed their leases: a) Charter Communications extended the lease for 94,300sf at Village Center Station I in Denver by three years in Jul 23, and b) Matheson Tri-Gas expanded by 19,600sf to 118,700sf at Tower 909 in Dallas in Jan 24. Overall, PRIME achieved an encouraging positive rental reversion of 9.6% in 4Q23. PRIME could sustain the positive rental reversion going forward as in-place passing rents remain below asking rents by 6.5%.
- **Portfolio occupancy improved 0.4ppt qoq to 85.4% in 4Q23.** Occupancies at Crosspoint in Philadelphia, Tower 909 in Dallas and One Washingtonian Center in Washington DC improved 2.9ppt, 3.7ppt and 6.1ppt qoq respectively to 100%, 91.5% and 86.3%.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	163	160	165	173	177
EBITDA	85	83	87	91	93
Operating profit	85	83	87	91	93
Net profit (rep./act.)	(30)	(118)	56	58	59
Net profit (adj.)	77	55	56	58	59
EPU (US\$ cent)	6.5	4.6	4.3	4.5	4.5
DPU (US\$ cent)	6.6	2.7	2.4	4.9	5.0
PE (x)	2.0	2.8	2.6*	2.5*	2.5*
P/B (x)	0.2	0.2	0.2*	0.2*	0.2*
DPU Yld (%)	51.2	21.2	20.4*	42.0*	42.7*
Net margin (%)	(18.1)	(73.7)	34.1	33.7	33.6
Net debt/(cash) to equity (%)	73.2	95.9	90.5	93.2	96.0
Interest cover (x)	3.9	3.0	2.9	2.8	2.8
ROE (%)	n.a.	n.a.	7.7	7.9	8.1
Consensus DPU (US\$ cent)	n.a.	n.a.	2.7	2.5	4.0
UOBKH/Consensus (x)	-	-	0.88	1.96	1.24

*Based of theoretical ex-bonus unit price of US\$0.1164.
Source: Prime US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.128
Target Price	US\$0.45
Upside	+251.6%
(Previous TP)	US\$0.57)

COMPANY DESCRIPTION

PRIME invests in stabilised income-producing office assets in the US. It has a high-quality portfolio of 14 Class A freehold office properties strategically located in 13 key office markets valued at US\$1.4b as at Dec 23.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PRIME SP
Shares issued (m):	1,189.3
Market cap (US\$m):	152.2
Market cap (US\$m):	152.2
3-mth avg daily t'over (US\$m):	1.2

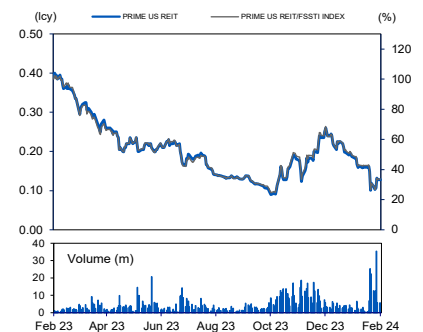
Price Performance (%)

52-week high/low	US\$0.40/US\$0.09			
1mth	3mth	6mth	1yr	YTD
(34.4)	(32.3)	(14.7)	(68.4)	(46.7)

Major Shareholders

KBS REIT Properties	18.2
Temasek Hldgs	8.9
FY24 NAV/Share (US\$)	0.57
FY24 Net Debt/Share (US\$)	0.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Erosion in capital values.** The fair value of PRIME's investment properties declined 8.7% or US\$134m (2022: -US\$144m) to US\$1,408m at end-23. Direct cap rate has expanded 54bp to 7.1%. Thus, NAV per unit declined 20% to US\$0.60. Aggregate leverage deteriorated by 4.7ppt qoq to 48.4% in 4Q23.

• **Long duration of hedges provides protection.** Interest coverage ratio remained healthy at 3.1x as of Dec 23. Weighted average interest rate eased 0.2ppt qoq to 4.0% in 4Q23. 79% of PRIME's borrowings is at a fixed rate (15%) or hedged to fixed rates (64%) till mid-24. 62% of its borrowings is fixed or hedged till mid-26.

STOCK IMPACT

• **Class A offices benefit from flight to quality.** PRIME focuses on well-amenitised Class A office buildings, which are well sought-after, to attract employees back to work in the office. Most of PRIME's properties were built or refurbished in the last 10 years, which ensures their continued relevance to potential tenants.

• **Demand for office space strengthened in 4Q23.** Active tenant requirements rose for the third consecutive quarter and increased 6.6% qoq in 4Q23. Leasing activity rose 14.1% qoq, and the market saw the return of larger transactions. Conversion activities reached record volume of 18.8m sf for the third consecutive year in 2023, as major cities introduce incentives to reinvigorate their commercial districts.

• **Capital preservation is key component of deleveraging strategy.** Management is engaging lenders in constructive discussions for refinancing US\$478m of credit facilities due in Jul 24. Management targets to execute up to US\$100m of deleveraging in 2024. Management will evaluate PRIME's distribution policy dynamically and chart its own course and unique path forward.

• **Closing in on several leasing discussions.** Management is working on sizeable potential new leases for Park Tower in Sacramento, One Washingtonian Center in Washington DC, 171 17th Street in Atlanta, Tower 1 in Emeryville, 101 South Hanley in St Louis and Promenade I & II in St Antonio. Discussions regarding sizeable leases for One Washingtonian Center and Park Tower are underway, and could substantially backfill vacant spaces at both properties, but require long lead times to close the deals. Management sees good momentum on renewals and backfills for upcoming lease expiries at Promenade I & II and 101 South Hanley in 2024.

EARNINGS REVISION

• We forecast 2024 DPU of 2.4 US cents after factoring in the 1-for-10 bonus issue and assuming PRIME imposed payout ratio of 50%. We forecast 2025 DPU of 4.9 US cents in 2025 assuming PRIME resumes regular distributions.

VALUATION/RECOMMENDATION

• **Lucrative distribution yield.** PRIME provides attractive distribution yield of 20% for 2024 and 42% for 2025. The stock trades at depressed P/NAV of 0.22x.

• **Maintain BUY.** Our target price of US\$0.45 is based on DDM (cost of equity: 11.5%, terminal growth: 0.0%).

SHARE PRICE CATALYST

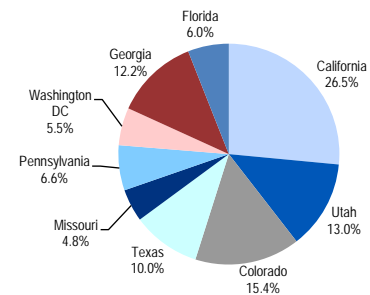
• Backfilling of vacant spaces and continued positive rental reversion.

KEY OPERATING METRICS – PRIME

	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % Chg	qoq % Chg*
DPU (US cents)	3.03	n.a.	2.46	n.a.	0.25	-91.7%	-89.8%
Occupancy	89.0%	88.6%	85.6%	85.0%	85.4%	-3.6ppt	0.4ppt
Aggregate Leverage	42.1%	43.7%	42.8%	43.7%	48.4%	6.3ppt	4.7ppt
Average Cost of Debt	3.4%	3.7%	3.8%	4.0%	3.80%	0.4ppt	-0.2ppt
Weighted Debt Maturity (years)	2.0	1.7	1.5	1.6	1.3	-0.7yrs	-0.3yrs
% Borrowings on Fixed Rates	82%	79%	80%	78.0%	79.0%	-3.7%	1.3%
WALE by NLA	4.1	3.9	3.9	3.8	4.0	-0.1yrs	0.2yrs
Rental Reversion	20.2%	-2.6%	9.5%	-2.0%	9.6%	-10.6ppt	11.6ppt

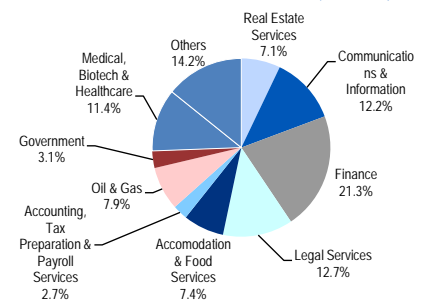
Source: PRIME, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY STATE (DEC 23)



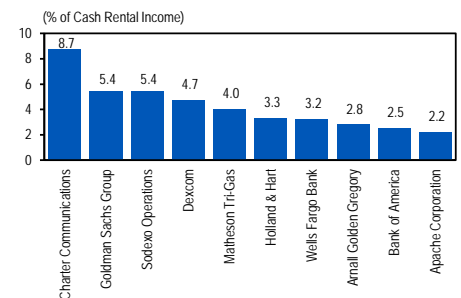
Source: PRIME

SECTOR DIVERSIFICATION BY CRI (DEC 23)



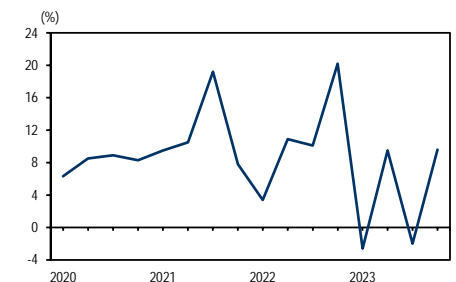
Source: PRIME

TOP 10 TENANTS AS % OF CRI (DEC 23)



Source: PRIME

POSITIVE RENTAL REVERSION



Source: PRIME

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	159.8	165.4	173.2	176.6
EBITDA	83.0	86.5	91.0	92.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	83.0	86.5	91.0	92.9
Net interest income/(expense)	(28.0)	(29.6)	(32.1)	(33.0)
Pre-tax profit	(117.8)	56.9	58.9	59.9
Tax	(0.0)	(0.6)	(0.6)	(0.6)
Net profit	(117.8)	56.3	58.3	59.3
Net profit (adj.)	54.9	56.3	58.3	59.3

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	90.2	89.0	93.4	95.3
Pre-tax profit	56.9	59.3	61.3	62.3
Deprec. & amort.	(0.2)	(2.0)	(2.0)	(2.0)
Working capital changes	(2.8)	2.3	0.4	0.4
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	36.2	29.4	33.7	34.6
Investing	(30.1)	(15.0)	(15.0)	(15.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(29.5)	(15.0)	(15.0)	(15.0)
Others	(0.6)	0.0	0.0	0.0
Financing	(60.3)	(72.0)	(76.0)	(80.9)
Distribution to unitholders	(75.9)	(31.0)	(63.9)	(64.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	35.0	(11.4)	20.0	17.0
Others/interest paid	(19.5)	(29.6)	(32.1)	(33.0)
Net cash inflow (outflow)	(0.3)	2.0	2.4	(0.6)
Beginning cash & cash equivalent	11.6	12.3	14.3	16.7
Changes due to forex impact	1.0	0.0	0.0	0.0
Ending cash & cash equivalent	12.3	14.3	16.7	16.1

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,408.0	1,423.0	1,438.0	1,453.0
Other LT assets	18.4	18.4	18.4	18.4
Cash/ST investment	11.8	14.3	16.7	16.1
Other current assets	6.0	4.1	4.1	4.2
Total assets	1,444.1	1,459.8	1,477.2	1,491.7
ST debt	478.4	0.0	0.0	0.0
Other current liabilities	29.7	29.4	30.0	30.6
LT debt	218.0	685.0	705.0	722.0
Other LT liabilities	4.4	3.9	4.0	4.1
Shareholders' equity	713.7	741.4	738.2	735.0
Total liabilities & equity	1,444.1	1,459.8	1,477.2	1,491.7

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	51.9	52.3	52.5	52.6
Pre-tax margin	(73.7)	34.4	34.0	33.9
Net margin	(73.7)	34.1	33.7	33.6
ROA	n.a.	3.9	4.0	4.0
ROE	n.a.	7.7	7.9	8.1
Growth				
Turnover	(2.0)	3.5	4.7	2.0
EBITDA	(1.9)	4.3	5.1	2.1
Pre-tax profit	n.a.	n.a.	3.4	1.8
Net profit	n.a.	n.a.	3.5	1.8
Net profit (adj.)	(28.6)	2.5	3.5	1.8
EPU	(29.0)	(6.8)	3.5	1.8
Leverage				
Debt to total capital	49.4	48.0	48.8	49.6
Debt to equity	97.6	92.4	95.5	98.2
Net debt/(cash) to equity	95.9	90.5	93.2	96.0
Interest cover (x)	3.0	2.9	2.8	2.8

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