Prime US REIT (PRIME SP)

Poised For Growth

Stable quarter, eyeing deal upside

PRIME delivered a stable 1Q21, and like its peers, saw strong leasing momentum, albeit mostly from renewals. Improving market fundamentals should support demand recovery, with occupancies in our view, likely to bottom out in 2H21. DPU visibility is high, from its 4.3-year WALE, strong tenancies, and +2.0% pa growth from its AUM, currently under-rented by 6.5%. We see catalysts from improving leasing activity into 2021, and upside from acquisitions, backed by its strong balance sheet. Valuations are compelling at 8+% FY21 DPU yield, and 35% upside to our USD1.10 DDM-based TP (COE: 8.3%, LTG: 2.0%). BUY.

Lower occupancies, assets well-placed

Its revenue rose 2.5% YoY and 0.9% QoQ, from higher rental income, while NPI dipped 2.0% YoY and 1.2% QoQ, given full-quarter contribution from Park Tower (acquired in Feb 2020). Rental collections remained strong at 99%, even as portfolio occupancy fell slightly to 91.7% (from 92.4% in 4Q20). This was due to lower occupancies at 222 Main (from 94.9% to 90.9%) and Promenade I&II (97.5% to 93.9%), on transitory vacancies. Its properties are well-placed, with demand from financial and technology sector tenancies set to support backfilling efforts in the coming quarters.

Reversion at +8.5%, assets 6.5% under-rented

It leased c.80k sf in 1Q21 at +8.5% rental reversion, versus c.59k sf in 4Q20 at +8.3% (and c.83k sf in 3Q20 at +8.9%). Long-term leases (60-84 months) at +9.5% reversion contributed 72% of activity, with 80% of these due to renewals or expansion by existing tenants in established and growth-type industries. DPU visibility is high, with 99.9% of leases backed by embedded rental escalations averaging +2.0% pa and supported by a 4.3-year WALE; 4.9 years for its top ten tenants at 41.0% of its cash rental income.

Strong balance sheet, scores well against peers

Its leverage remains low at 33.8% (from 33.5% at end-Dec 2020), with USD290m debt headroom (at 45% limit). PRIME ranks well against its US office S-REIT peers on operational metrics and capital management, with low near-term leasing and refinancing risks. We see upside from deal opportunities and as it eyes a FTSE EPRA NAREIT Index inclusion in the medium term.

FYE Dec (USD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	129	144	149	156	160
Net property income	84	95	97	101	104
Core net profit	62	72	75	78	79
Core EPU (cts)	6.7	6.8	7.0	7.2	7.3
Core EPU growth (%)	nm	2.2	2.6	3.2	1.1
DPU (cts)	6.7	6.8	7.0	7.2	7.3
DPU growth (%)	nm	2.2	2.6	3.2	1.1
P/NTA (x)	nm	nm	nm	nm	nm
DPU yield (%)	6.9	8.6	8.2	8.4	8.5
ROAE (%)	6.2	2.7	8.0	8.3	8.4
ROAA (%)	4.9	5.3	5.1	5.3	5.3
Debt/Assets (x)	0.33	0.33	0.33	0.34	0.34
Consensus DPU	-	-	7.0	7.0	7.0
MKE vs. Consensus (%)	-	-	0.2	2.4	3.4

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BUY

Share Price	USD 0.86
12m Price Target	USD 1.10 (+35%)
Previous Price Target	USD 1.10

Company Description

Prime US REIT invests directly or indirectly in a portfolio of income producing office real estate in the US market.

Statistics

52w high/low (USD)	0.87/0.68
3m avg turnover (USDm)	0.7
Free float (%)	33.2
Issued shares (m)	924
Market capitalisation	USD789.9M
	USD790M
Major shareholders:	
KBS Realty Advisors LLC	31.3%
TIKU FAMILY	9.2%
Steppe Investments Pte Ltd.	7.4%

Price Performance



Absolute (%)	(1)	3	23
Relative to index (%)	3	(3)	1
Source: FactSet			

Value Proposition

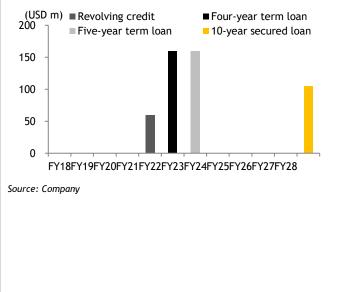
- Diversified US portfolio and low concentration risk with 12 properties across 9 cities.
- Visible DPU growth as 99.9% of leases have built-in rental escalations averaging 2.0% and majority of properties are located in cities with favourable office demand / supply dynamics.
- Potential for positive rental reversions as market rents are at 6.5% above expiring rents in 2021E.

Valuation breakdown (as of end-Dec 2020) Philadelphia San Francisco 7.0% Washington 8.2% DC 10.6% Denver East. 17.2% 30.6% Atlanta Central, West, 17.0% 52.4% 12.9% 7 0% San Antonio Salt Lake 5.1% City 15.9% St. Louis 5.7% Dallas Sacramento 5.8% 11.6% Source: Company

Financial Metrics

- We expect average occupancy of 85-100% for FY21-22E, up from 65-100% at end-Dec 2020. We forecast passing-rent growth of 1.8-3.0% for FY21-22E.
- C.90% of its debt is locked in at fixed rates, with refinancing only from 2022E. For FY21-22, we assume an average interest cost of 2.8% (vs 3.3% in FY19).

Debt-maturity profile



Growth Pipeline

Locations in the US where KBS has assets



1. Its sponsor has an additional USD11.6b AUM which can

- potentially be injected into the REIT, and offers expertise and deep networks in the US for third-party acquisitions.
- 2. Its acquisition criteria are determined by (1) property yield, (2) tenants and occupancy, (3) location, which leads growth and diversification, and (4) AEI upside.
- 3. Gearing at 33.8% suggest about USD290-450m in debt headroom (at 45-50% gearing limit). Future sizeable acquisitions may require equity fund raising.

Swing Factors

Upside

- Better-than-expected DPUs from forecasts.
- Accretive acquisition of new properties.
- Increases in rents, occupancy or property values of its assets.

Downside

- Spikes in interest rates.
- Value-destroying acquisitions.
- Changes in tax regime that affects its tax-efficient structure.

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Property	Annual rent in place (USD)	Asking rent (USD)	Potential rental reversion (%)	WALE (years)	Occupancy 4Q20 (%)	Occupancy 1Q21 (%)	Lease expiry through 2021 by CRI (%)
Tower I at Emeryville	53.71	54.02	0.6	5.6	94.5	93.7	0.1
222 Main	37.70	37.63	-0.2	4.8	94.9	90.9	0.9
Village Center Station I	23.47	24.00	2.3	2.5	65.1	64.9	0.0
Village Center Station II	24.21	23.50	-2.9	7.3	100.0	100.0	0.0
101 South Hanley	27.94	31.00	11.0	4.1	97.6	96.6	1.0
Tower 909	29.14	33.06	13.5	3.8	89.5	88.8	0.8
Promenade I & II	27.15	28.00	3.1	3.4	97.5	93.9	1.1
CrossPoint	33.53	39.00	16.3	3.3	100.0	100.0	0.4
One Washingtonian Center	33.92	36.00	6.1	3.1	94.7	95.5	1.4
Reston Square	42.58	37.00	-13.1	2.9	100.0	100.0	0.0
171 17th Street	27.51	27.00	-1.9	4.5	86.3	87.1	0.9
Park Tower	31.83	40.50	27.2	4.3	92.6	92.6	1.4
Portfolio	32.00	34.08	6.5	4.3	92.4	91.7	8.0

Fig 1: Property portfolio - in-place rents are 6.5% below market rents

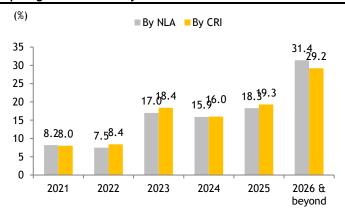
Source: Company data

Fig 2: Top ten tenants - contributed 41.0% of cash rental income in 1Q21 and 4.9-year WALE

Tenant	Industry	Property	NLA (sf)	% of portfolio CRI
Charter Communications	Communications	Village Center Station I & II	419,881	9.0
Goldman Sachs	Finance	222 Main	177,206	5.5
Sodexo Operations LLC	Accommodation & Food Services	One Washingtonian Center	190,698	5.5
Arnall Golden Gregory LLP	Professional, Scientific & Technical Services	171 17th Street	122,240	3.4
Holland & Hart	Legal Services	222 Main	89,960	3.4
State of California	Government	Park Tower	141,372	3.3
Wells Fargo Bank NA	Finance	171 17th Street	106,030	3.2
Whtiney, Bradley & Brown	Communications Equipment Manufacturing	Reston Square	73,511	2.9
WeWork	Real Estate and Rental & Leasing	Tower I at Emeryville	56,977	2.5
Teleflex	Medical, Biotech & Healthcare	CrossPoint	84,008	2.3
Total			1,461,883	41.0

Source: Company data

Fig 3: Lease expiry profile - well-spread out with 31.4% by NLA expiring in 2026 and beyond



Source: Company data

* CRI - Cash Rental Income

Fig 4: Comparison with US office S-REITs

REIT	P	rime US RE	IT	Μ	anulife US R	EIT	Keppel F	Pacific Oak	US REIT
Portfolio overview									
Asset value (USD m)		1,405			1,993			1,305	
No. of properties		12			9			13	
Total NLA (m sf)		3.9			4.7			4.7	
Property type		12 Class A		2 Т	rophy [^] , 7 Cl	ass A	8 Class A	1 Class A/B	4 Class B
Land tenure		Freehold			Freehold		0 0(0)57 / ()	Freehold	
Geographical mix	No.	AUM	% of AUM	No.	AUM	% of AUM	No.	AUM	% of AUM
		(USD m)			(USD m)			(USD m)	
US	12	1,405	100.0	9	2,035	100.0	13	1,305	100.0
West	5	745	53.0	3	835	41.9	5	852	65.3
San Francisco	1	116	8.2						
Denver	2	242	17.2				1	121	9.3
Salt Lake City	1	224	15.9						
Los Angeles				1	320	16.1			
Irvine				1	319	16.0			
Seattle							3	688	52.8
Sacramento	1	164	11.6	1	196	9.8	1	42	3.2
Central	3	232	16.5	0	0	0.0	5	326	25.0
Dallas	1	81	5.8				1	102	7.8
San Antonio	1	71	5.1						
St. Louis	1	80	5.7						
Houston							2	133	10.2
Austin							2	91	7.0
East	4	429	30.5	6	1,158	58.1	3	127	9.7
Atlanta	1	181	12.9	2	415	20.8	2	34	2.6
Washington DC	2	149	10.6	1	177	8.9			
Fairfax				1	119	5.9			
Philadelphia	1	99	7.0						
Secaucus				1	115	5.8			
Jersey City				1	333	16.7			
Orlando							1	92	7.1
Tenancy									
WALE (years)		4.3			5.3			3.6	
Lease expiry profile (%)	By NLA		By Income	By NL		By Income	By NLA		y Income
2021	8.2		8.0	4.3		4.4	9.0		8.3
2022	7.5		8.4	13.0		13.0	14.0		13.0
2023	17.0		18.4	13.0		12.8	17.9		17.0
2024	15.9		16.0	9.4		9.4	12.5		14.4
2025	18.3		19.3	10.9		10.4	15.7		14.9
2026 and beyond	31.4		29.2	49.4		50.0	30.9		32.4
Occupancy (%)	5111	91.7	27.2		92.0	50.0	50.7	91.6	52.1
No. of tenants		244			176			~440	
Top 10 tenants % of total		41.0			36.3			20.4	
Capital management		11.0			50.5			20.1	
Gross borrowings (USD m)		483			857			506	
Aggregate leverage (%)		33.8			41.3			37.5	
Average interest cost (%)		2.80			3.18			2.82	
								2.82	
Average debt tenor (years)		3.8			3.4			2.7	
Debt expiry profile (%)		•			0			0	
2021		0			0			8	
2022		12			22			29	
2023		33			12			16	
2024		33			16			25	
2025		0			21			23	
2026 and beyond		22			29			0	
% of debt fixed		90.0			94.5			84.7	

Company data, as of end-Mar 2021

^Trophy refers to buildings that are either iconic in nature or built to the highest quality standards; they command the highest rents and sale prices in the market and are found in only the most prestigious locations

Fig 5: S-REITs valuation comparison

Company	Ratin	Price	TP	Upside	Yield	Total	MC	ADTV	Free	BVPS	P/BV	D	ivideno	l yield	(%)	Gearing
	g					return			Float							(D/A)
		(SGD)	(SGD)	(%)	(%)	(%)	(SGD b)	(SGD m)	(%)	(SGD)	(x)	19	20	21E	22E	(%)
Retail							7.6	11.3			0.86	5.5	5.8	6.5	6.7	34
Frasers Ctr Trust (FCT)	Buy	2.36	2.90	22.9	5.3	28.2	4.0	8.6	59	2.21	1.07	5.1	3.8	5.3	5.4	35
Starhill Global (SGREIT)	NR	0.54					1.2	1.1	62	0.81	0.67	8.3	7.3	7.0	7.6	36
SPH REIT	Hold	0.85	0.80	(5.3)	7.1	1.8	2.4	1.7	29	1.02	0.83	3.2	6.2	7.1	7.1	30
Retail & Office							25.3	70.7			0.95	5.4	5.2	5.8	5.9	37
Cap. Int. Comm. Trust (CICT)	Buy	2.07	2.55	23.2	6.3	29.5	13.4	35.4	46	2.01	1.03	5.6	4.4	6.3	6.3	34
Suntec REIT (SUN)	Sell	1.45	1.25	(13.8)	6.1	(7.7)	4.1	19.1	48	2.12	0.68	6.9	5.0	6.1	6.2	44
Mapletree Comm. (MCT)	Buy	2.07	2.35	13.5	4.6	18.1	6.9	16.2	67	1.72	1.20	3.8	4.6	4.6	4.7	34
Lendlease REIT (LREIT)	NR	0.76					0.9		75	0.85	0.90	5.1	7.0	6.2	6.4	35
Office							6.6	14.0			0.77	6.3	6.6	5.9	6.0	38
Keppel REIT (KREIT)	Sell	1.20	0.95	(20.8)	4.9	(15.9)	4.4	13.2	58	1.34	0.89	4.7	4.7	4.9	4.9	35
OUE Comm. (OUECT)	NR	0.40					2.1	0.7	27	0.61	0.65	7.9	8.6	6.9	7.2	40
Industrial							35.6	106.7			1.36	6.1	5.9	5.9	6.1	38
Ascendas REIT (AREIT)	Buy	2.94	3.65	24.1	5.4	29.5	12.2	40.1	82	2.21	1.33	5.6	5.0	5.4	5.7	38
Mapletree Ind. (MINT)	Buy	2.76	3.25	17.8	4.8	22.6	6.5	18.0	72	1.66	1.67	4.5	4.6	4.8	5.0	40
Mapletree Log. (MLT)	Buy	1.98	2.25	13.6	4.2	17.8	8.5	25.7	68	1.33	1.49	4.2	4.2	4.2	4.3	38
ARA Logos Trust (ALLT)	Buy	0.78	0.80	3.2	7.0	10.2	1.1	2.1	90	0.53	1.46	7.5	6.8	7.0	7.0	37
AIMS APAC (AAREIT)	Buy	1.42	1.60	12.7	6.9	19.6	1.0	1.2	62	1.54	0.92	7.4	6.3	6.9	7.1	34
Keppel DC REIT (KDCREIT)	NR	2.66					4.3	16.8	79	1.19	2.23	2.9	3.3	3.8	3.9	37
ESR REIT	NR	0.39					1.5	2.6	70	0.40	0.96	10.2	10.1	7.9	8.3	42
Sabana SC REIT (SSREIT)	NR	0.41					0.4	0.4	61	0.51	0.80	6.5	7.1	7.0	7.4	36
Hospitality							6.9	7.6			0.88	7.5	3.0	3.9	4.8	39
Ascott Res. Trust (ART)	Buy	1.02	1.25	22.5	3.9	26.4	3.2	4.6	59	0.97	1.05	6.9	3.0	3.9	4.9	36
CDL HT (CDLHT)	Hold	1.22	1.30	6.6	4.5	11.1	1.5	1.8	61	1.32	0.92	7.9	2.5	4.5	5.0	39
Far East HT (FEHT)	Buy	0.60	0.70	16.7	4.0	20.6	1.2	0.8	38	0.79	0.76	6.5	3.8	4.0	4.5	42
Frasers HT (FHT)	Hold	0.52	0.50	(3.8)	3.1	(0.7)	1.0	0.4	38	0.65	0.80	8.5	2.7	3.1	4.8	38
Offshore REITs							18.1	35.4			1.15	6.6	6.8	6.7	6.9	37
Sasseur REIT (SASSR)	Buy	0.92	1.05	14.1	7.6	21.7	1.1	1.9	41	0.91	1.01	7.1	7.1	7.6	7.9	28
Dasin Retail Trust (DASIN)	NR	0.72					0.6	0.2	35	1.41	0.51	n.a.	n.a.	6.2	6.8	37
Mapletree N. Asia (MAGIC)	NR	1.06					3.6	7.3	60	1.27	0.83	7.4	7.3	6.6	6.9	42
Capita China Trust (CLCT)	NR	1.35					2.1	4.9	69	1.49	0.91	7.5	7.7	6.5	7.2	35
Lippo Malls Ind. RT (LMIRT)	NR	0.07					0.5	0.4	40	0.10	0.66	n.a.	n.a.	n.a.	n.a.	42
Manulife US REIT (MUST)	Buy	0.74	1.00	35.1	8.2	43.4	1.6	1.8	91	0.83	0.89	8.1	7.6	8.2	8.2	41
Prime US REIT (PRIME)	Buy	0.86	1.10	28.7	8.2	36.8	1.2	0.7	54	0.86	0.99	7.4	8.1	8.2	8.4	34
Keppel P.O. US REIT (KORE)	NR	0.75					0.9	1.0	87	0.89	0.84	8.1	8.4	8.3	8.4	38
IREIT Global (IREIT)	NR	0.64					0.6	0.4	59	0.76	0.84	n.a.	n.a.	7.5	7.6	35
BHG Retail REIT (BHGREIT)	NR	0.54					0.3	0.0	24	0.83	0.64	n.a.	n.a.	n.a.	n.a.	36
Frasers Log. & Ind. (FLT)	NR	1.46					5.0	14.7	70	1.14	1.28	4.7	4.7	5.4	5.5	35
EC World REIT (ECWREIT)	NR	0.79					0.6	0.4	42	0.91	0.86	7.8	8.3	7.0	7.7	38
Cromwell REIT (CEREIT)	NR	2.48					t	1.7	91	0.53	4.67	1.7	1.6	1.6	1.7	39
Healthcare							3.0	3.6			1.34	18.1	18.3	3.2	3.4	43
Parkway Life REIT (PREIT)	NR	4.31					2.6	2.4	64	1.98	2.17	3.0	3.1	3.2	3.4	38
First REIT	NR	0.26					0.4	1.2	64	0.51	0.51	33.1		n.a.	n.a.	49
Total REITs							103	249			1.11	7.0	6.5	5.9	6.2	37
S-REIT yield spread														2.7		
FSTREI Index														4.2		
SGS 10Y bond yield														1.5		

Prices as of 18 May 2021. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
Price/DPU(x)	14.5	11.6	12.2	11.9	11.7
P/BV (x)	nm	nm	nm	nm	nm
P/NTA (x)	nm	nm	nm	nm	nm
DPU yield (%)	6.9	8.6	8.2	8.4	8.5
FCF yield (%)	0.0	0.0	0.0	0.0	0.0
INCOME STATEMENT (USD m)					
Revenue	128.8	143.6	149.3	155.8	160.4
Net property income	84.3	95.0	96.7	100.9	103.5
Management and trustee fees	(7.4)	(9.6)	(9.1)	(10.4)	(9.9
Net financing costs	(13.7)	(14.9)	(13.1)	(13.4)	(15.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	(6.6)	(45.3)	0.0	0.0	0.0
Pretax profit	56.6	25.2	74.4	77.1	78.5
Income tax	(6.5)	(2.0)	(1.2)	(1.2)	(1.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	50.1	23.2	73.3	75.9	77.3
Core net profit	61.6	72.1	74.6	77.6	79.1
Distributable inc to unitholders	61.6	72.1	74.6	77.6	79. 1
BALANCE SHEET (USD m)					
Cash & Short Term Investments	37.9	37.4	29.4	30.5	31.3
Accounts receivable	2.4	1.6	17.1	23.3	29.4
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	1,254.7	1,405.2	1,415.2	1,424.5	1,434.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2.2	2.6	2.6	2.6	2.6
Total assets	1,297.2	1,446.8	1,464.3	1,480.9	1,497.5
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	16.6	14.5	15.0	15.4	15.9
LT interest bearing debt	432.8	480.4	490.4	500.4	510.4
Other liabilities	22.4	44.2	45.0	45.0	45.0
Total Liabilities	471.9	539.1	550.3	560.7	571.2
Shareholders Equity	825.3	907.8	914.0	920.1	926.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	825.3	907.8	914.0	920.1	926.3
Total liabilities and equity	1,297.2	1,446.8	1,464.3	1,480.9	1,497.5
CASH FLOW (USD m)					
Cash flow from operations	44.4	89.9	78.8	91.4	94.7
Capex	(1,222.9)	(175.9)	(10.0)	(9.3)	(9.6)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
CF from investing activities	(1,222.9)	(175.9)	(10.0)	(9.3)	(9.6)
Dividends paid	(61.6)	(65.0)	(74.6)	(77.6)	(79.1)
Interest expense	(5.4)	(13.6)	(13.1)	(13.4)	(15.2
Change in debt	432.4	46.4	10.0	10.0	10.0
Equity raised / (purchased)	789.2	117.8	0.0	0.0	0.0
Other financial activities	61.7	(0.0)	0.0	0.0	0.0
CF from financing activities	1,216.3	85.6	(77.7)	(80.9)	(84.2)
Effect of exchange rate changes	0.0	0.1	0.0	0.0	0.0
Net cash flow	37.8	(0.4)	(8.9)	1.1	0.8

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.8	11.5	4.0	4.4	2.9
Net property income growth	13.6	12.7	1.8	4.4	2.6
Core net profit growth	34.3	16.9	3.4	4.1	1.9
Distributable income growth	nm	16.9	3.4	4.1	1.9
Profitability ratios (%)					
Net property income margin	65.5	66.2	64.8	64.7	64.5
Core net profit margin	47.9	50.2	49.9	49.8	49.3
Payout ratio	100.0	100.0	100.0	100.0	100.0
DuPont analysis					
Total return margin (%)	38.9	16.2	49.1	48.7	48.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	6.2	2.7	8.0	8.3	8.4
ROAA (%)	4.9	5.3	5.1	5.3	5.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.7	2.7	2.6	2.6
Net gearing (%) (excl. perps)	47.9	48.8	50.4	51.1	51.7
Net interest cover (x)	5.6	5.7	6.7	6.8	6.2
Debt/EBITDA (x)	5.6	5.6	5.6	5.5	5.4
Capex/revenue (%)	nm	122.5	6.7	6.0	6.0
Net debt/ (net cash)	395.0	442.9	461.0	469.9	479.0
Debt/Assets (x)	0.33	0.33	0.33	0.34	0.34

Source: Company; Maybank

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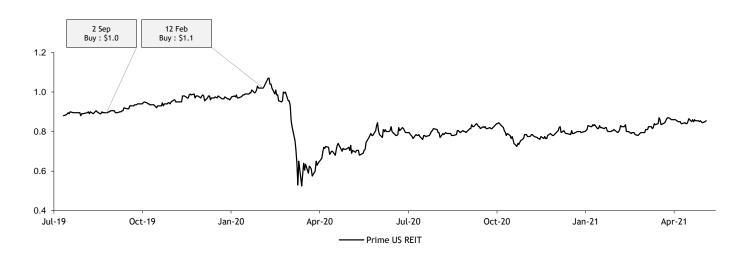
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