January 8, 2025

Maybank

REITs

Singapore

Parkway Life REIT (PREIT SP)

Asia's largest healthcare REIT

BUY

Share Price	SGD 3.79
12m Price Target	SGD 4.10 (+12%)

Expensive but defensive, initiate with BUY

We initiate coverage of PREIT with a BUY and DDM-based target price of SGD4.10. PREIT has a strong record of uninterrupted recurring dividend growth, a well-articulated growth strategy and a visible and growing distribution profile from lease renewals. Sponsor has one of the world's largest healthcare networks and provides an acquisition pipeline and deal network. While the yield spreads are tight, we view that the attractive attributes and favourable sector/thematic justify the premium valuation.

Strong track record and earnings visibility

PREIT has grown DPU by 134% since IPO in 2007. NAV has also grown steadily. With renewed master lease for Singapore hospitals in place, it has a visible revenue and distribution growth for the forecast years (2024e-26e) and stable inflation-adjusted revenue subsequently. Maiden accretive acquisition of 11 nursing homes in France establishes a footprint in a third market after SG and Japan. It has partnered with a dominant operator (France's second largest/Europe's third largest), which should help to scale its presence. All in, we forecast DPU CAGR of 7.2% for the forecast years driven by in-built rent escalation in SG and acquisition in France.

Strategic growth plan, favourable cost of capital

PREIT is in the right sector with a strong and supportive sponsor. Demographics, income and supportive policies are fuelling the growth of healthcare sector. Sponsor is a leading hospital operator and has granted ROFR for the Mount Elizabeth Novena hospital. PREIT has historically grown while capping its gearing and currently has leverage of 37.5%. With a favourable cost of capital (c.4% yield and cost of debt of 1.4%), it is well positioned to capture further growth opportunities.

Strong attributes command premium valuation

We set a DDM-based TP of SGD4.1 based on 7% CoE and 2% medium-term growth rate. PREIT trades at 1.55x PB (at historical mean), and a tight yield spread at c.130bps (historical 260bps). However, past record and visible growth justifies the same, in our view. Risks: Japan nursing home industry dynamics, France execution risks, changing healthcare tech.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	133	155	153	168	170
Net property income	110	130	126	139	141
Core net profit	41	100	89	99	119
Core EPU (cts)	6.8	16.6	14.7	15.1	18.2
Core EPU growth (%)	(87.6)	144.3	(11.8)	3.0	20.6
DPU (cts)	14.4	14.8	14.8	15.1	18.2
DPU growth (%)	2.1	2.7	(0.1)	2.4	20.6
P/NTA (x)	1.6	1.6	1.5	1.5	1.5
DPU yield (%)	3.8	4.0	3.9	4.0	4.8
ROAE (%)	2.9	7.1	na	na	na
ROAA (%)	1.8	4.3	3.6	3.7	4.3
Debt/Assets (x)	0.36	0.35	0.34	0.36	0.36
Consensus DPU	-	-	14.9	15.2	18.0
MIBG vs. Consensus (%)	-	-	(1.1)	(0.3)	1.2

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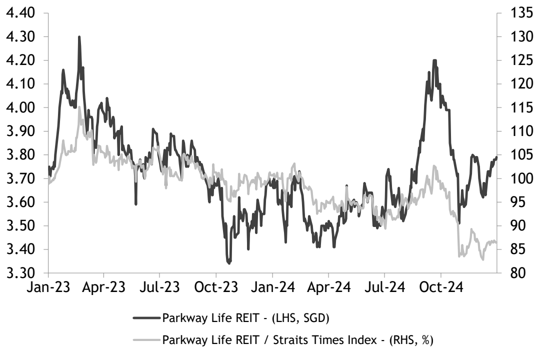
Company Description

Parkway Life Real Estate Investment Trust engages in the business of investing in investment properties in the healthcare sector.

Statistics

52w high/low (SGD)	4.20/3.41
3m avg turnover (USDm)	2.9
Free float (%)	64.3
Issued shares (m)	652
Market capitalisation	SGD2.5B
	USD1.8B
Major shareholders:	
IHH Healthcare Bhd.	35.5%
Cohen & Steers Capital Management, Inc.	6.0%
The Vanguard Group, Inc.	2.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(8)	3
Relative to index (%)	(1)	(13)	(14)

Source: FactSet

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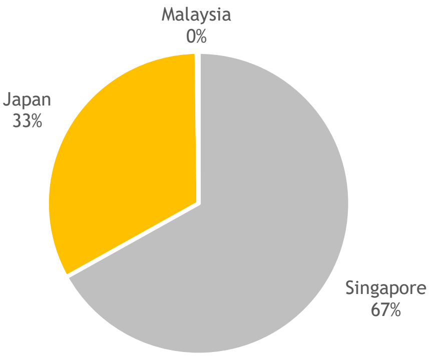
Tear Sheet Insert

Co. Reg No: 198700034E
MICA (P) : 099/03/2012

Value Proposition

- PREIT is Asia's largest-listed healthcare REITs. It invests in income-producing real estate used primarily for healthcare and healthcare-related purposes. As at 31 Aug 2024, total portfolio size stood at 64 properties valued at SGD2.2b.
- Presence in Singapore, Malaysia, Japan and soon in Europe with four hospitals/medical centres, and sixty nursing homes.
- Sponsor IHH Healthcare, one of the world's largest healthcare networks, with > 80 hospitals in 10 countries.
- Defensive and stable distribution profile with built-in growth from master leased assets. Further growth with completion of asset enhancement and expansion in Europe by initiating collaboration with new partner and portfolio optimization.

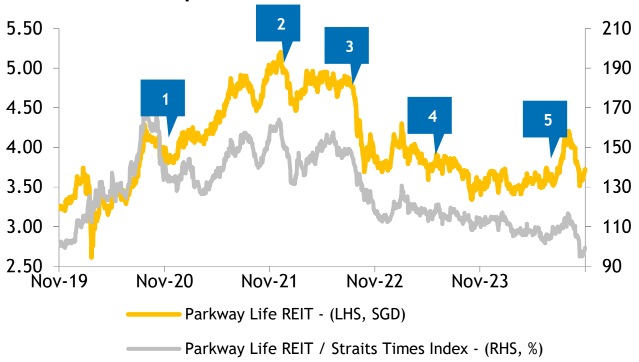
Asset Mix



Source: Company

Price Drivers

Historical share price trend



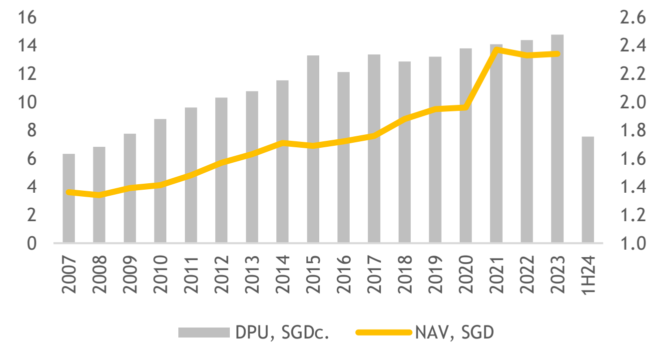
Source: Company, Maybank IBG Research

1. PREIT joins FTSE EPRA NAREIT Global Developed Index
2. Acquires third Japan nursing home in 2021
3. Acquires 5 Japan nursing homes, SREITs impacted by rates
4. PLIFE and sponsor jointly conduct major refurbishment works at Mount Elizabeth Orchard hospital.
5. Maiden investment in Europe for EUR111.2m

Financial Metrics

- Estimate DPU CAGR of 7.2% from FY23 until FY26E.
- Growth driven by completion of asset enhancement in Mount Elizabeth Orchard and is back-ended. FY26E DPU +20.6% YoY.
- Gearing 37.5% as of Sep-2024. Low debt cost due to JPY asset mostly hedged by JPY debt; 65% JPY debt of the total debt.
- Accelerated recycling of mature assets in Japan and investing in Singapore could be beneficial. Foray into Europe entails diversification but we remain watchful of execution risks. Sponsor has deep and historical presence in Malaysia.

DPU and NAV trend



Source: Company

Swing Factors

Upside

- DPU growth from completion of asset enhancement
- Lower bond yields supporting valuation
- Recycling Japan and building up scale in Europe through accretive acquisitions. FX gains supporting distribution

Downside

- Change in healthcare regulation in catchment markets, competition in healthcare tourism
- Execution missteps in Europe expansion
- Negative impact from currency volatility

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Risk Rating & Score[1]	na
Score Momentum[2]	na
Last Updated	27 Nov. 24
Controversy Score[3] (Updated: 27 Nov. 24)	na

Business Model & Industry Issues

- Parkway Life Real Estate Investment Trust engages in the business of investing in investment properties in the healthcare sector. It operates through the following business segments: Hospitals, Medical Centers and Nursing Homes in SG, JP, MY and soon in Europe. It may be critically analysed by ESG-focused investors given the real estate sector's contribution to GHG emissions, PREIT's exposure to a socially significant sector and PREIT's continued need to access capital for growth.
- The board's role includes setting strategic objectives, with a focus on sustainability. The board determines, monitors and manages the material ESG factors. It is helped by Sustainability Steering Committee and Sustainability Task Force.
- PREIT is guided by IHH Group and targets net zero carbon emissions by 2050, and has been actively engaging with the sponsor/tenant and operator/property manager to reduce its carbon footprint through on-going capital expenditure initiatives
- Winner of Singapore Corporate Sustainability Award 2023 under the REITs and Business Trusts Category.

Material E issues

- PREIT also recognizes Economic category as a key pillar of ESG reporting along with usual "E", "S" and "G". Material issues under economic category include economic contribution, risk management and sustainable investment;
- Under economic category, targets include all acquisitions to be screened in accordance with the operating policy, all assets to have 10-year capex projection and all assets to be regularly checked for enhancement opportunities.
- Material E issues include climate change and resource management; targets include annual review and update of transitional and physical risk and better energy efficiency.
- Mount Elizabeth Hospital AEI of SGD150m to lead to obtaining Green Mark Platinum status. Significant capex allocated for energy efficiency improvements.
- Target to initiate energy efficiency improvements for up to 10% of properties annually, with full coverage by 2050

Material S issues

- Material social issues include diversity and inclusion, people and learning, and stakeholder engagement; Targets include zero cases of serious injuries and discrimination, completion of mandatory training, maintaining board diversity.
- Diversity, inclusion and non-discrimination as in 2023 - 70% of staff in the age bracket of 30-50 years; workforce made up of 74% females, women 54% of management team; quarter of board is female; zero cases of discrimination;
- Zero incidents of serious office injuries, average 27.8 hours of training per employee in 2023; hybrid work in place;
- Significant attrition in 2023 (22% of headcount) but replacements found after benchmarking salaries;
- Engages with key stakeholders – unitholders and prospective investors, employees, tenants/operators and community on a continual basis.

Key G metrics and issues

- Material governance issues: Cyber-readiness, security and data privacy and, ethics, compliance and reporting; Targets include zero incidents of significant fines and non-monetary sanctions against PREIT and its manager.
- PREIT is an externally managed REIT and the manager is a wholly owned subsidiary of its sponsor IHH Healthcare, which supports its growth via its network of hospitals, and access to capital markets and funding partners
- Board independence and diversity: The board comprises of eight members, seven of whom are non-executive directors. The board comprises of three independent NEDs. Chairperson is independent and separate from CEO; 25% of representation from female directors with goal to increase to 30% overtime to achieve greater gender parity; NRC and ARC are chaired by and comprise majority of IDs.
- Fee structure: Base fee of 0.3% per annum of the value of all the assets of PREIT; performance fee of 4.5% per annum of the net property income of PREIT for that financial year; lease management fee and property management fee of 1% and 2% of revenue, respectively, of owned and managed assets, excluding Singapore hospitals; Acquisition and divestment fees are 1% and 0.5% of asset, respectively.
- Remuneration paid to key management personnel in FY23 is not disclosed and can't be normalized to paid dividend.
- Since its IPO in 2007, PREIT has grown organically through higher valuation and inorganically through third party acquisitions. PREIT is a member of the FTSE NAREIT Global Developed Index,

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative parameters (Score:30)						
	Particulars	Unit	2021	2022	2023	FIRT (2023)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	tCO2e	14134	N/A	N/A	N/A
	Total	**tCO2e**	14134	0.0	0.0	0.0
	Scope 3 GHG emissions	tCO2e	N/A	26,889	27,413	60,664
	Total	**tCO2e**	14,134	26,889	27,413	60,664
	GHG intensity - Singapore assets	kgCO2e/m2	119.6	130.7	133.0	N/A
	Energy intensity	kWh/sqm	293.0	N/A	N/A	350.6
	Renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Water intensity	m3/m2	N/A	N/A	N/A	N/A
	Waste recycled	%	N/A	N/A	N/A	N/A
	Cases of environmental non-compliance	number	N/A	N/A	N/A	0
	Sustainable/green debt as % of total	%	N/A	0	0	0
	Number of green certified buildings	number	N/A	0	0	0
S	% of women in workforce	%	74	74	74	65
	% of women in management roles	%	N/A	NA	54	67
	Lost-time injury rate	%	0	0	0	0
	Work-related fatality	number	0	0	0	0
G	MD/CEO salary as % of reported net profit	%	N/A	N/A	N/A	N/A
	Board salary as % of reported net profit	%	0.58	0.53	0.46	0.77
	Independent directors on the Board	%	38	38	38	57
	Female directors on the Board	%	25	25	25	14

Qualitative Parameters (Score: 50)

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?

Yes - The board with the help of Audit and Risk Committee determines the material ESG factors and oversees management and monitors them with the help of Sustainability steering committee and Sustainability task force.

b) Is the senior management salary linked to fulfilling ESG targets?

The remuneration of key management personnel is linked to the performance of financial and non-financial KPIs. The financial KPI entails distributable income of PREIT and the non-financial KPIs entail analyst coverage, tenant satisfaction, retention of key employees and regulatory compliance.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes - PREIT's sustainability report aligns with the disclosure recommendations by the TCFD and WHO's guidance on climate resilience and environmentally sustainable healthcare facilities.

d) Does the company do green leasing or have plans to start green leasing or participate in GRESB real estate assessment?

No

e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

(1) Replacement of all direct current (DC) motors to electronically communicated (EC) motors for the air-conditioning and mechanical ventilation (ACMV) equipment for the Singapore hospitals, where possible; (2) Replacement of all lifts with variable voltage and variable frequency (VVVF) drive and enhanced with sleep mode features for the Singapore hospitals; (3) Exploring installation of Photovoltaics system and electric vehicle charging stations in the hospital

f) Does the company enter into transactions with interested persons in the last financial year?

Yes - PREIT entered into transactions with sponsor IHH Healthcare and its associates for rental income of SGD75.2m. IHH and its subsidiaries are substantial unitholder of PREIT. In addition, PREIT paid management fees of SGD13.8m to Parkway Trust Management, a wholly owned subsidiary of the sponsor.

Target (Score: 100)		
Particulars	**Target**	**Achieved**
100% of our assets have a 10-year CAPEX projection in place	100%	Met
Adopt TCFD recommendations	Annual sustainability report	Met
Adhere to IHH Group's policy on Diversity & Inclusion	100%	Met
Zero incidents of significant fines and non-monetary sanctions	0	Met
Adheres to IHH Group’s policy on Workplace Safety and Health (WSH) Program	0	Met

Impact

NA

Overall score: 53

As per our ESG matrix, PREIT (C2PU) has an overall score of 53.

ESG score	Weights	Scores	Final Score
Quantitative	50%	30	15
Qualitative	25%	50	13
Target	25%	100	25
Total			**53**

As per our ESG assessment, PREIT has an established framework, internal policies, and tangible medium/long-term targets. However, there is further room for improvement for capturing data for overseas assets, as well as getting green certifications. PREIT’s ESG score is 53, which makes its ESG rating above average in our view (average ESG rating = 50).

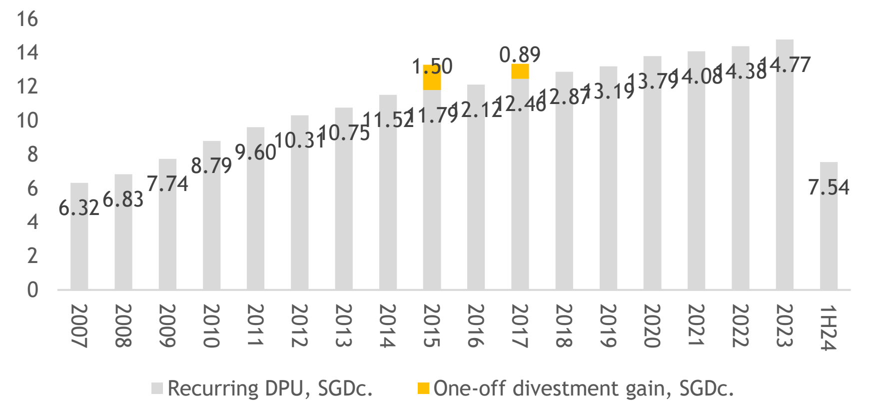
1. Investment thesis

Our BUY thesis for PREIT is premised upon: a) strong record of DPU growth since IPO; b) visible DPU growth for the forecast years from Singapore renewed master lease agreement and inbuilt CPI-linked escalation clauses; and c) well-articulated investment approach, favourable positioning in fast growing healthcare sector and a strong sponsor. In addition, management has highlighted possibility of accretive acquisitions from sponsor pipeline as well as deepening footprint in Europe.

1.1 Strong execution track record

PREIT has grown DPU steadily at a rate of 134% from IPO in 2007 until Dec-2023. This has happened despite retaining SGD3m pa of distributable amount for capital expenditures. PREIT's NAV has also exhibited strong growth. Barring a dip in FY15 and FY22, NAV has grown by 75% from IPO on Aug 2007 until Dec-2023.

Fig 1: Steady DPU growth



Source: Maybank IBG Research, Company Data

1.2 Visible growth, inbuilt stability

PREIT renewed its master lease agreement for the Singapore portfolio in July 2021. The prior master lease agreement for 15 years expired in Aug 2022. Under the renewed master lease agreement, PREIT will incur SGD150m of capex from FY23 until FY25 for enhancing the properties to meet patient demand and address emerging and evolving healthcare trends. On the other hand, the new rent structure will entail a total rental growth of 39.6% from end of old lease term until FY26. The growth takes into account necessary rental rebates for downtime due to renewal capex. Bulk of the rental growth (c. 25.3%) will happen in FY26. Meanwhile, the interim years (FY23-FY25) has guaranteed rent step-up of 2-3% pa.

Beyond the rental growth delivered by the above-mentioned renewed master lease agreement, DPU growth in subsequent years will be supported by an inbuilt rent review formula, which takes into account the Singapore portfolio's performance as well as inflation; and from the indexed rent escalations for the Japan and newly acquired portfolio in France.

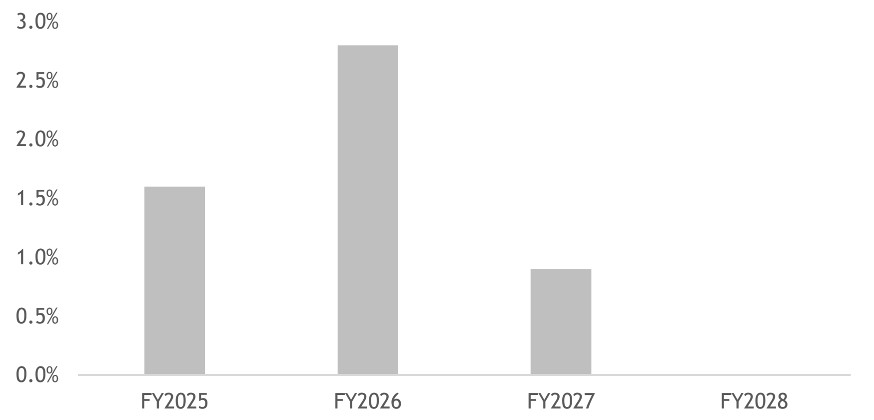
Fig 2: Master lease renewal agreement for Singapore hospitals

	Rent, SGDm	Growth, %	Comments
Year 15 of Prior lease term	71.0		Till 22 Aug 2022
Interim period	72.4	2	Prorated from 23 Aug 2022 till 31 Dec 2022)
Year 1 (FY2023)	74.6	3	Initial rent of SGD97.2m, subject to rent rebate of SGD22.6m
Year 2 (FY2024)	76.9	3	Initial rent of SGD97.2m, subject to rent rebate of SGD20.3m
Year 3 (FY2025)	79.2	3	Initial rent of SGD97.2m, subject to rent rebate of SGD18.0m
Year 4 (FY2026)	99.2	25.3	Estimated based on initial rent of SGD9.2m and 1% CPI

Source: Maybank IBG Research, Company Data

Notwithstanding the growth, the portfolio offers stability with a defensive long-term lease structure with downside protection. As of end September 2024, the portfolio has weighted average lease to expiry by gross revenue of 15.83 years. About 98.5% of gross revenue is with downside protection based on existing lease agreements and subject to applicable laws.

Fig 3: Not more than 3% of leases due to expire each year for the next 4 years



Source: Maybank IBG Research, Company Data

1.3 Strategic investment approach, supportive sponsor

PREIT's investment approach for overseas geography relies on partnership and clustering which helps to derisk, build local connections and scale. It deepens collaboration with existing/new partners for long-term working relationships. The partners are lessee/operator who tend to specialise in their area of operation. Further, to achieve economies of scale, it establishes a country HQ to monitor and manage its portfolio and structure its investment in a tax-efficient manner. PREIT is using this approach to diversify into France, the third identified market.

In Oct-24, PREIT announced maiden entry into France with the acquisition of 11 nursing homes. It has partnered with the vendor, DomusVi Group, which will continue to operate the properties on sale and lease back agreement. DomusVi is the second-largest nursing home operator in France and the third-largest nursing home operator in Europe with over 40 years of experience. However, the key difference from Japan is that PREIT will partner with only one operator for Europe versus 30 operators in Japan.
Apart from the growth potential in France (and Europe), PREIT has a right of first refusal (ROFR) over Mount Elizabeth Novena hospital in Singapore for a period of 10 years starting from 2022. It is a 345 bed hospital and also has more than 250 specialist physician suites. The hospital was a ROFR asset during the IPO back in 2007 but the ROFR expired in 2012.

According to market estimates, the development value of the hospital stands at c.SGD2b (vs. SGD2.4b market cap of PREIT). This is sizable and may be acquired piecemeal. Assuming a cap rate of 5.0%, the deal is likely to be accretive given the trading yield of c.4.0% and SGD funding cost of c.3.8% (5 year G-Sec + 100bps). PREIT has debt headroom of SGD321m before reaching 45% gearing as of end Sep 2024.

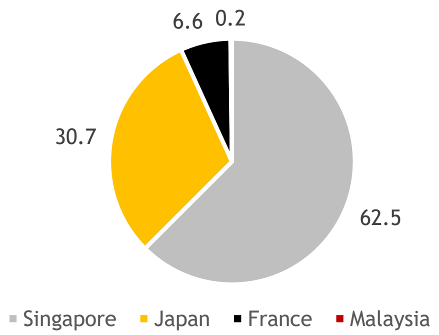
Sponsor IHH is a leading healthcare provider with a global network. 9M revenue and EBITDA for end Sep 2024 grew 13% and 12% YoY, respectively. Gearing was 19.6% while interest coverage was 3.65x for fiscal ending Dec 2023. The group plans to add 4,000 new beds (33% more capacity) by 2028. It plans to grow ambulatory care offerings and improve primary care clinic penetration in selective markets such as Singapore and Hong Kong.

2. Corporate information

2.1 Asia's largest listed healthcare REIT

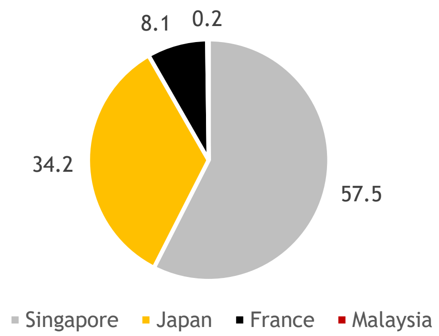
PREIT is one of the largest-listed healthcare REITs in Asia with a portfolio of SGD2.24b as of end Sep-2024. Following the completion of the proposed acquisition of the French portfolio, it will have presence in four countries namely, Singapore, Japan, France and Malaysia. Its asset mix spans across key healthcare segments of hospitals and medical centres as well as nursing homes/senior living. Given the assets are master leased, tenant diversification is low with the largest tenant accounting for 62.6% of gross revenue for FY23. This will come down to 57.5% following the acquisition in France.

Fig 4: PREIT AUM Mix, %



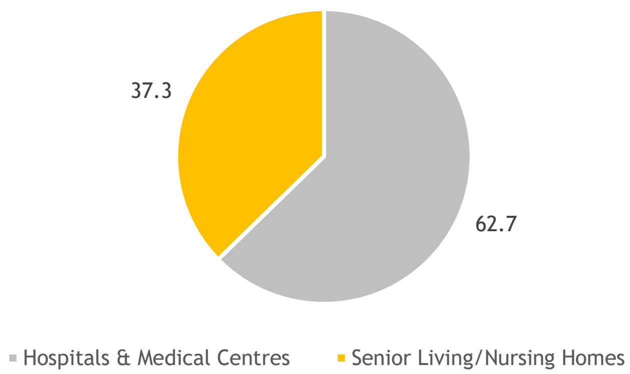
Source: Maybank IBG Research, Company Data Based on end Sep 2024

Fig 5: PREIT Revenue Mix, %



Source: Maybank IBG Research, Company Data Based on pro forma FY2023

Fig 6: PREIT AUM Mix by asset type, %



Source: Maybank IBG Research, Company Data

Fig 7: Portfolio Details

	Singapore	Japan	Malaysia	France
Type	3 Hospitals & Medical Centres	60 nursing homes	Medical centre	11 Nursing homes
Land Tenure	3 Leasehold	59 Freehold, 1 Leasehold	1 Freehold	11 Freehold
Beds/Rooms	708 beds		5058 rooms	850 beds
Strata units/car park lots	40 strata units/559 car park lots	NA	9 strata units/69 car park lots	NA
Year of completion	1979 to 1993	1964 to 2024	1999	1970 to 2022
Committed Occupancy	100%	100%	31% (excluding car park)	100%
Leases/Lessees	3 Leases; 1 Master Lessee	60 Leases; 30 Lessees	4 Leases; 3 Lessees	11 leases; 1 Lessee
Year of acquisition	2007	2008 to 2024	2012	Expected 2024
Appraised value, end Dec 2023	SGD1506m	JPY 79,806m (SGD740m)	RM 20.1m (SGD5.7m)	(EUR 115.4m) SGD165.8m

Source: Maybank IBG Research, Company Data

3. Financial analysis

3.1 Earnings model analysis

We forecast DPU of SGD14.75c, 15.10c and 18.22c for the FY24-26E forecast years, respectively This represents a CAGR of 7.2% from FY223 to FY2026e, though growth is mostly back-ended. Revenue for Singapore is expected to grow in line with the guidance provided in the master lease renewal agreement. We incorporate revenue from French acquisition starting from FY25. The main reason for DPU growth in FY26 over FY25 is roll-off of SGD18m rental rebate. Master lease renewal agreement had illustrated pro-forma DPU of SGD18.26c for FY26 while the acquisition in France is expected to be 2% accretive on a full year basis.

We forecast growth in AUM to be driven by the completion of announced acquisitions in Japan and France in FY24. Further, completion of ongoing capex for Mount Elizabeth Orchard will help valuation in FY25. Borrowings are expected to grow in-line with planned capex. Overall, we expect FY26 NAV of SGD2.58 and gearing of 35.9%. Master lease renewal agreement had illustrated pro-forma NAV of SGD2.49 at end-FY25 while the acquisition in France is expected to be 4.4% accretive to NAV.

Fig 8: Financial forecasts for PREIT

SGDm.	FY21	FY22	FY23	FY24E	FY25E	FY26E
Singapore	70.4	82.2	101.6	104.4	106.5	107.5
Japan	50.0	47.4	45.6	48.0	48.0	48.7
Malaysia	0.3	0.3	0.3	0.3	0.3	0.3
France	-	-	-	-	13.0	13.3
Gross revenue	120.7	130.0	147.5	152.7	167.7	169.8
NPI	111.2	121.9	139.1	144.0	158.2	160.1
Mgmt. & trust fees	(16.2)	(17.1)	(17.5)	(18.0)	(18.9)	(19.2)
Interest cost	(4.7)	(5.8)	(10.8)	(12.5)	(15.5)	(15.9)
FX Gains/(Losses)	1.9	3.4	7.5	10.5	10.5	10.5
Net operating income	92.3	102.4	118.3	123.9	134.2	135.6
Revaluation of assets	239.2	(59.4)	(11.2)	(5.2)	6.0	10.1
Net income	331.9	41.1	100.5	111.7	132.6	137.9
Distribution adjustment	(244.2)	48.8	(8.2)	(19.6)	(31.2)	(16.2)
Retained inc. for capex	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Total Distribution	84.7	87.0	89.3	89.3	98.5	118.9
Units outstanding, m	605.0	605.0	605.0	652.4	652.4	652.4
DPU, SGDc.	14.08	14.38	14.77	14.75	15.10	18.22

Source: Maybank IBG Research, Company Data

Fig 9: Key balance sheet items

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Investment properties	2,291	2,206	2,231	2,500	2,610	2,650
Net debt	800	810	798	861	931	949
NAV/Shareholder Equity	1,435	1,410	1,415	1,622	1,659	1,681
NAVPS/BVPS, SGD	2.37	2.33	2.34	2.49	2.54	2.58
Gearing, % (Debt/Asset)	35.4	36.4	35.6	34.3	35.6	35.9
Interest cost, %	0.52	1.04	1.27	1.40	1.60	1.60

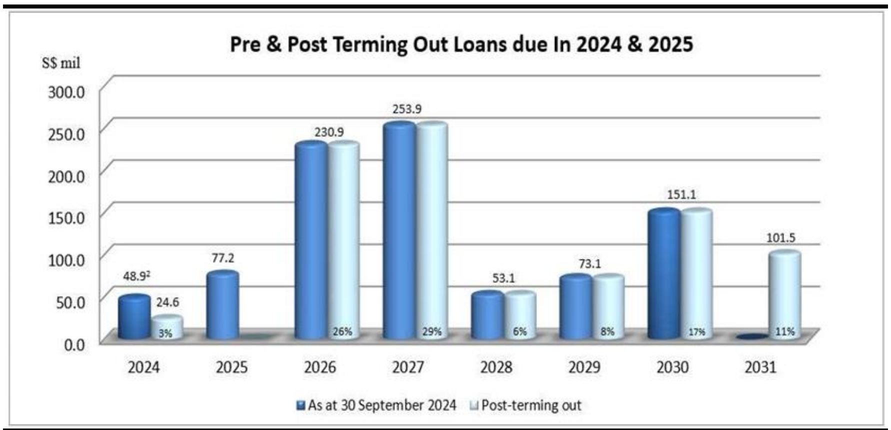
Source: Maybank IBG Research, Company Data

3.2 Balance sheet, capital structure analysis

PREIT has a history of prudently managing its balance sheet and delivering growth while capping leverage. Barring FY20, annual gearing (Debt % Asset) has stayed below 37%. Interest coverage ratio has stayed above 8x. It has policies in place to manage FX risk on NAV and distribution. In particular, it matches asset currency with financing currency to mitigate principal forex risk arising from overseas acquisitions. On a portfolio basis, at least 50% is naturally hedged, while the rest is on a swapped basis depending on the interest rate differential and nature of currency involved. On overseas income, PREIT hedges at least half of its interest rate and forex exposure. Overall, no more than 30% of total debt is due in a single year.

As of end September 2024, PREIT has gearing of 37.5%, all-in debt cost of 1.36% and interest cover of 10.2x. Without realized FX gains, we estimate coverage to comfortable at 9.1x. It has ample debt headroom of SGD321.3m and SGD590.1m before reaching 45% and 50% gearing, respectively. Following the acquisitions in Japan and France and recently completed equity fund raising, pro-forma leverage ratio is expected to come down to 33.3%. The current weighted average term to maturity of the debt is 3.0 years. This will extend out to 3.8 years post terming out maturing loans due in 2025 and short-term loan drawn down for the Japan acquisition. We assume all-in interest cost of 1.6% for FY25/26E.

Fig 10: Debt maturity schedule as of end Sep 2024



Source: Maybank IBG Research, Company Data

4. Valuation

We value PREIT using a three-stage dividend discount model. We use cost of equity of 7% (in-line with peers) and medium-term growth rate of 2%. Based on these inputs, we derive a fair value of SGD4.1, implying a total return of 13%. PREIT currently trades at 1.6x book and offers a yield spread of 133bps. While at its historical mean on P/BV, spreads are compressed at close to -1 standard deviation below the historical mean. Further, given that distribution is supported by realized forex gains (11.4% of 9MFY24 distribution), spreads are relatively thin.

Fig 11: Coverage valuation table

MIBG Coverage, Rating, TP and Estimates vs. Consensus				Current						MIBG			MIBG	MIBG vs. cons.	Yield +	Yield +
Name	**Ticker**	**Rating**	**TP, SGD**	**Yield**	**PB**	**FY1 Div.yield**	**Total return (%)**	**2yr DPU cagr (%)**	**FY0 DPU**	**FY1 DPU**	**FY2 DPU**	**FY0 NAV**	**FY1 NAV**	**FY1 DPU, %**	**Growth (MIBG)**	**Growth (FactSet)**
Commercial	**Commercial**															
CapitaLand Integrated Commercial Trust	CICT	Buy	2.34	5.5	0.93	5.6	23.7	1.7	10.75	10.99	11.12	2.13	2.16	1.1	7.2	7.2
Mapletree Pan Asia Commercial Trust	MPACT	Hold	1.29	6.9	0.69	6.6	10.6	(1.7)	8.91	8.23	8.61	1.80	1.75	1.0	5.2	4.4
Frasers Centrepoint Trust	FCT	Buy	2.50	5.6	0.94	5.5	20.9	0.7	12.042	12.00	12.20	2.30	2.32	-0.6	6.3	7.2
Suntec Real Estate Investment Trust	SUN	Hold	1.25	5.5	0.53	5.8	11.1	2.3	7.14	6.94	7.46	2.23	2.19	11.3	7.8	3.1
Keppel REIT	KREIT	Buy	1.05	6.4	0.63	6.6	26.0	0.9	5.81	5.78	5.91	1.40	1.37	-0.5	7.3	7.2
Lendlease Global Commercial Trust	LREIT	Buy	0.70	6.9	0.74	6.4	31.1	(3.4)	3.87	3.60	3.61	0.76	0.76	-5.8	3.5	7.5
OUE Real Estate Investment Trust	OUECT	Buy	0.34	6.9	0.49	6.6	21.9	(1.0)	2.09	1.96	2.05	0.60	0.61	2.3	5.9	6.0
Industrial	**Industrial**															
Capitaland Ascendas REIT	CLAR	Buy	3.10	5.7	1.13	5.6	23.5	0.3	15.16	14.74	15.26	2.33	2.36	-2.0	6.0	6.7
Mapletree Logistics Trust	MLT	Buy	1.60	6.6	0.88	6.1	28.6	(7.5)	9.00	8.01	7.70	1.50	1.49	-0.8	-0.9	1.2
Mapletree Industrial Trust	MINT	Buy	2.60	6.0	1.23	5.8	19.3	1.0	13.43	13.35	13.70	1.86	1.89	-0.2	7.0	7.1
ESR-LOGOS REIT	EREIT	Buy	0.32	7.1	0.81	9.0	30.3	(3.6)	2.56	2.34	2.38	0.32	0.31	5.1	3.5	0.9
Aims Apac REIT	AAREIT	Buy	1.39	7.3	0.99	7.4	15.1	2.8	9.36	9.60	9.89	1.31	1.28	3.2	10.1	7.9
Hospitality	**Hospitality**															
Capitaland Ascott Trust	CLAS	Buy	1.15	6.2	0.78	6.6	33.4	0.0	6.36	6.01	6.37	1.16	1.18	1.2	6.3	4.3
CDL Hospitality Trust	CDLHT	Buy	1.10	6.4	0.59	6.0	30.0	2.8	5.70	5.37	6.02	1.51	1.52	-0.2	9.2	8.2
Far East Hospitality	FEHT	Buy	0.80	5.9	0.67	6.4	34.7	(1.2)	4.09	3.99	3.99	0.93	0.96	-2.6	4.7	6.2
Frasers Hospitality Trust	FHT	Buy	0.48	4.1	0.83	4.2	(8.3)	2.9	2.26	2.31	2.39	0.66	0.66	8.0	7.0	3.7
Healthcare	**Healthcare**															
First REIT	FIRST	Buy	0.28	9.4	0.86	9.1	16.9	(1.3)	2.48	2.37	2.41	0.30	0.31	-0.1	8.0	9.4
Parkway Life REIT	PREIT	Buy	4.10	4.0	1.61	3.9	13.1	1.1	14.77	14.75	15.10	2.34	2.49	-0.4	5.1	5.3
	Ticker	**Rating**	**TP, SGD**	**DY**	**PB**	**FY1 Div.yield**	**Total return (%)**	**2yr EPS cagr (%)**	**FY0 core EPS**	**FY1 core EPS**	**FY2 core EPS**	**FY0 NAV**	**FY1 NAV**	**MIBG vs. cons. FY1 EPS, %**		
CapitaLand Investments	CLI	Buy	3.30	4.5	0.93	4.6	30.1	NA	-8.19	15.29	24.01	2.81	3.09	7.3		

Source: Maybank IBG Research, FactSet

5. Risks

Less than favourable Japan nursing home industry dynamics and JPY appreciation – Japan's population has declined each year since 2010 with the total population falling by 4.3% in the period. Meanwhile, the number of welfare facilities have grown in that period. The number of moderate-fee homes have grown by 14% from FY12 to FY21 while long-term welfare facilities have grown by 38%. There may not be enough old and sick people to fill the rooms. Further, with rising inflation, risk of operator bankruptcy goes up. Falling JPY makes it less attractive for overseas healthcare providers to work there. This should lead to operator consolidation, which implies less bargaining power on rents. Further, only larger operators will be able to incur capex for deploying modern healthcare technology. PREIT is benefitting from the falling JPY and distributing the realized FX gains. As such, a reversal in the weakening trend of the JPY would negatively affect PREIT unless income is unhedged (though this not one of PREIT's capital management strategies). We believe PREIT should recycle the Japan portfolio and deploy proceeds locally.

Execution risks in France. We will be watchful of execution as PREIT enters a new market. While PREIT has a well-planned strategy, has tied up with a dominant operator, and a potential easing cycle in Europe and falling EURSGD may lead to a similar outcome as in Japan in the past decade, all may not go as planned. Operator credit risk and changing tax regulation is something to watch.

Changing landscape of healthcare industry. In the medium term, healthcare innovation may change the need and type of healthcare real estate as delivery channels change and more effort is directed towards prevention and early detection than cure. Further, advancing healthcare facilities and changing regulatory/insurance practices may also impact healthcare tourism.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	26.1	24.8	25.7	25.1	20.8
P/BV (x)	1.6	1.6	1.5	1.5	1.5
P/NTA (x)	1.6	1.6	1.5	1.5	1.5
DPU yield (%)	3.8	4.0	3.9	4.0	4.8
FCF yield (%)	1.1	0.5	1.7	1.8	4.7
INCOME STATEMENT (SGD m)					
Revenue	133.4	155.0	152.7	167.7	169.8
Net property income	**109.7**	**130.2**	**126.0**	**139.3**	**141.0**
Management and trustee fees	5.2	1.2	na	na	na
Net financing costs	(4.5)	(9.4)	(12.5)	(15.5)	(15.9)
Associates & JV	0.0	0.0	na	na	na
Exceptionals	0.0	0.0	na	na	na
Other pretax income/expenses	0.0	0.0	(5.2)	6.0	10.1
Pretax profit	**48.2**	**108.3**	**119.9**	**141.4**	**146.9**
Income tax	(7.1)	(7.8)	(8.2)	(8.8)	(8.9)
Minorities	0.0	0.0	na	na	na
Discontinued operations	0.0	0.0	na	na	na
Total return avail to unitholders	**41.1**	**100.5**	**111.7**	**132.6**	**137.9**
Preferred Dividends	0.0	0.0	na	na	na
Core net profit	41.1	100.5	89.3	98.5	118.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	40.0	28.5	35.3	38.2	43.9
Accounts receivable	14.5	5.3	6.5	7.2	7.3
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	2,205.9	2,231.0	2,500.0	2,610.0	2,650.0
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	81.8	69.4	68.3	68.3	68.3
Total assets	**2,342.1**	**2,334.1**	**2,610.2**	**2,723.7**	**2,769.5**
ST interest bearing debt	56.7	53.6	96.3	99.7	103.0
Accounts payable	0.0	0.0	31.8	34.9	35.4
LT interest bearing debt	795.2	774.9	800.0	870.0	890.0
Other liabilities	79.8	91.1	60.4	60.4	60.4
Total Liabilities	**931.7**	**919.6**	**988.5**	**1,065.0**	**1,088.8**
Shareholders Equity	1,410.5	1,414.6	1,621.8	1,658.7	1,680.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**1,410.5**	**1,414.6**	**1,621.8**	**1,658.7**	**1,680.7**
Total liabilities and equity	**2,342.1**	**2,334.1**	**2,610.2**	**2,723.8**	**2,769.5**
CASH FLOW (SGD m)					
Cash flow from operations	**90.2**	**99.0**	**109.3**	**123.5**	**142.1**
Capex	0.0	0.0	(70.0)	(80.0)	(25.0)
Acquisitions & investments	(125.2)	(49.6)	(180.6)	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
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	**(125.2)**	**(49.6)**	**(250.6)**	**(80.0)**	**(25.0)**
Dividends paid	(64.3)	(88.4)	(89.3)	(98.5)	(118.9)
Interest expense	4.4	9.7	(12.5)	(15.5)	(15.9)
Change in debt	116.5	30.2	69.9	73.4	23.3
Equity raised / (purchased)	0.0	0.0	180.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	**52.2**	**(58.2)**	**148.1**	**(40.6)**	**(111.4)**
Effect of exchange rate changes	**(3.0)**	**(2.7)**	**0.0**	**0.0**	**0.0**
Net cash flow	**14.2**	**(11.5)**	**6.8**	**2.9**	**5.7**

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.7	16.2	(1.5)	9.9	1.2
Net property income growth	11.2	18.7	(3.2)	10.5	1.2
Core net profit growth	(87.6)	144.2	(11.2)	10.4	20.6
Distributable income growth	na	na	na	na	na
Profitability ratios (%)					
Net property income margin	82.2	84.0	82.5	83.0	83.0
Core net profit margin	30.8	64.8	58.5	58.7	70.0
Payout ratio	211.5	88.9	80.4	74.3	86.2
DuPont analysis					
Total return margin (%)	30.8	64.8	73.2	79.1	81.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.7	1.6	1.6	1.6
ROAE (%)	2.9	7.1	na	na	na
ROAA (%)	1.8	4.3	3.6	3.7	4.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.6	2.6	2.5
Net gearing (%) (excl. perps)	57.6	56.6	53.1	56.2	56.5
Net interest cover (x)	24.7	13.7	na	na	na
Debt/EBITDA (x)	nm	nm	na	na	na
Capex/revenue (%)	0.0	0.0	45.9	47.7	14.7
Net debt/ (net cash)	811.9	800.0	861.0	931.5	949.1
Debt/Assets (x)	0.36	0.35	0.34	0.36	0.36

Source: Company; Maybank IBG Research

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