

COMPANY RESULTS

Keppel Pacific Oak US REIT (KORE SP)

2H23: Best Endeavour To Avoid Divestment, EFR And Potential Default

KORE's portfolio occupancy eased 1.1ppt qoq but continued to hover above 90% in 4Q23. Adjusted NPI grew 3.5% yoy due to organic growth and built-in rental escalation of 2.6% from its existing properties. The suspension of distribution provides funding for necessary capex and, as far as possible, keeps leverage below 45% to ensure continued support from banks for refinancing. KORE trades at 2026 distribution yield of 28.4% and P/NAV of 0.22x (78% discount to NAV). Maintain BUY. Target price: US\$0.35.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	yoy % Chg	Remarks
Gross Revenue	74.8	+1.3	Positive impact from built-in average rental escalation of 2.5% per year.
Net Property Income (NPI)	42.2	+2.3	
Adjusted NPI	43.4	+3.5	Exclude non-cash straight-line rent and lease incentives.
Distributable Income	26.1	-10.1	Finance expenses increased 23.9% yoy.
DPU (US cents)	0.0	-100.0	No distribution declared due to recapitalisation plan.

Source: KORE, UOB Kay Hian

RESULTS

- Sustaining growth in NPI.** Keppel Pacific Oak US REIT (KORE) reported distributable income of US\$26.1m for 2H23 (-10.1% yoy), which is in line with our expectation. Adjusted NPI increased 3.5% yoy to US\$43.4m due to better performance from its existing properties. Finance expenses increased 23.9% yoy due to higher borrowing costs as a result of rising interest rates.
- Committed portfolio occupancy eased slightly by 1.1ppt qoq to 90.3%** as of Dec 23. Occupancy for Westmoor Center in Denver dipped 4.4ppt qoq to 91.9% due to non-renewal by Signal Perfection (audio visual) and TraceGains (consumer packaged goods). Occupancy for Iron Point in Sacramento dropped 16.7ppt qoq to 64.2% due to non-renewal by Pro Unlimited (workforce management). Management plans to create 35,000sf of spec suites to attract prospective tenants to Iron Point.
- Focus on lease renewal and tenant retention.** Leases for 165,012sf of office space, equivalent to 3.4% of total NLA, were executed in 4Q23. Rental reversion has weakened to -4.4% in 4Q23 (9M23: +3.9% if adjusted for Spectrum's lease). Expansions and renewals accounted for 13.7% and 57.0% respectively of all leases signed in 2023. KORE benefits from built-in average annual rental escalation of 2.6% across its portfolio.
- NAV per unit has declined 14.8% yoy to US\$0.69.** Portfolio valuation has declined by 6.8% or US\$97.1m to US\$1,326.3m as of Dec 23. Four properties, namely The Plaza Buildings (Bellevue), Westmoor Center (Denver), Bellevue Technology Center (Bellevue) and Iron Point (Sacramento) contributed to 84% of the decline. The lower valuations were caused by higher capitalisation rates and discount rates. Fair value loss was US\$142.3m after taking into account capex and tenant improvements incurred in 2023.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	148	151	139	142	144
EBITDA	74	77	75	77	78
Operating profit	74	77	75	77	78
Net profit (rep./act.)	48	(68)	46	47	47
Net profit (adj.)	56	84	46	47	47
EPU (US\$ cent)	5.4	8.0	4.4	4.5	4.5
DPU (US\$ cent)	5.8	2.5	0.0	0.0	4.3
PE (x)	2.8	1.9	3.4	3.3	3.3
P/B (x)	0.2	0.2	0.2	0.2	0.2
DPU Yld (%)	38.4	16.6	0.0	0.0	28.4
Net margin (%)	32.8	(44.9)	33.1	33.1	32.8
Net debt/(cash) to equity (%)	60.8	76.9	74.9	70.6	74.7
Interest cover (x)	4.0	3.2	2.8	2.8	2.8
ROE (%)	5.7	n.a.	6.2	5.9	5.8
Consensus DPU (US\$ cent)	n.a.	n.a.	4.9	4.9	n.a.
UOBKH/Consensus (x)	-	-	n.m.	n.m.	-

Source: Keppel Pacific Oak US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.151
Target Price	US\$0.35
Upside	+131.8%
(Previous TP)	US\$0.59

COMPANY DESCRIPTION

KORE invests in a diversified portfolio of income-producing office real estate in growth cities driven by innovation and technology. It owns 13 freehold office buildings and business campuses in eight markets, namely Seattle – Bellevue/Redmond, Austin, Denver, Nashville, Houston, Dallas, Orlando and Sacramento.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KORE SP
Shares issued (m):	1,044.5
Market cap (US\$m):	157.7
Market cap (US\$m):	157.7
3-mth avg daily t'over (US\$m):	0.8

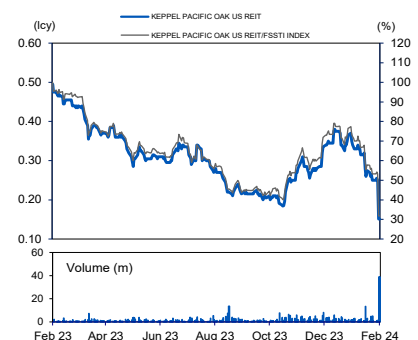
Price Performance (%)

52-week high/low	US\$0.495/US\$0.151			
1mth	3mth	6mth	1yr	YTD
(59.2)	(44.1)	(44.1)	(69.2)	(59.7)

Major Shareholders

Major Shareholders	%
Temasek Hldgs	9.9
Hillsboro Capital	8.7
FY24 NAV/Share (US\$)	0.74
FY24 Net Debt/Share (US\$)	0.55

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Prudent capital management.** Aggregate leverage increased 4.1ppt to 43.2% in 4Q23 due to the revaluation losses. Interest coverage ratio was healthy at 3.2x. Weighted average term to maturity was 2.7 years. There is no debt refinancing requirements until 4Q24. KORE's all-in average cost of debt was 4.12% in 2023 and is expected to reach 4.3-4.4% in 2024.

STOCK IMPACT

- Halting distribution to recapitalise.** KORE will recapitalise its balance sheet by suspending distributions for 2H23, 2024 and 2025. It intends to resume distribution in 1H26. Investors are rightfully shocked as aggregate leverage of 43.2% as of Dec 23 remains within MAS' regulatory limit of 50%.
- Pre-emptive move to keep leverage and interest coverage within MAS and banks' limit.** Management has evaluated various options:
 - KORE is unable to divest any properties at reasonable price that is beneficial to its unitholders. Many potential buyers are unable to access financing from banks.
 - Equity fundraising (EFR) is unlikely to raise sufficient equity capital in the current difficult market environment, resulting in the need to seek additional equity capital again in the near future.
- Funding for necessary capex.** Management estimated capex at US\$60m for 2024 and US\$50m for 2025. These investments are necessary to retain tenants and attract new ones. Relying on bank borrowings to fund capex would risk KORE eventually breaching regulatory leverage limits or its debt covenants.
- Ensuring continued support from relationship banks.** Banks are reluctant to lend above leverage of 45% for the US market. They are weary of weakness in the US office market. With aggregate leverage at 43.2%, KORE is a whisker away from the threshold of 45%. Crossing the threshold would affect KORE's ability to refinance its bank loan of US\$75m due in 4Q24.
- Adhering to the letter of the trust deed.** KORE's trust deed requires a reduction in distribution of 10% or 100% as the decline in valuation of US\$97.1m had created a loss situation.

EARNINGS REVISION/RISK

- We forecast DPU of 4.3 US cents for 2026.

VALUATION/RECOMMENDATION

- Thunderous response to temporary suspension of distribution.** KORE's effort to deleverage was misread by the market. The correction of 39.6% yesterday was overly harsh, especially after the drop of 12.5% on 31 Jan 24 when KORE delayed the announcement of its 2023 financial results. KORE provides 2026 distribution yield of 28.4% and trades at P/NAV of 0.22x (78% discount to NAV per unit).
- Maintain BUY.** We lower our target price to US\$0.35 based on DDM (cost of equity: 10.0% (previous: 9.0%), terminal growth: 0.0% (previous: 1.0%)).

SHARE PRICE CATALYST

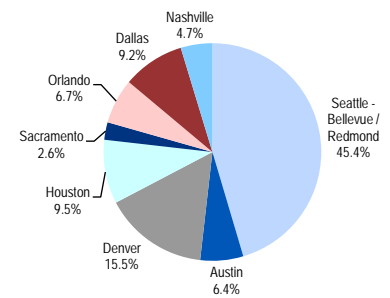
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from continued positive rental reversion and built-in annual rental escalation.

KEY OPERATING METRICS

Key Metrics	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % chg	qoq % chg
DPU (US cents)	2.78	n.a.	2.50	n.a.	0.00	-100.0%	-100.0%
Occupancy	92.6%	98.5%	90.8%	91.4%	90.3%	-2.3ppt	-1.1ppt
Aggregate Leverage	38.2%	38.7%	38.4%	39.1%	43.2%	5ppt	4.1ppt
Average Cost of Debt	3.02%	3.86%	3.89%	3.95%	4.00%	0.98ppt	0.05ppt
WALE by NLA (years)	4.7	3.3	3.5	3.4	3.6	0.2yrs	0.2yrs
Average Debt Maturity (years)	3.6	3.4	3.1	2.9	2.7	-0.9yrs	-0.2yrs
Rental Reversions	3.8%	-6.5%	2.6%	3.8%	-4.4%	-8.2%	-8.2%

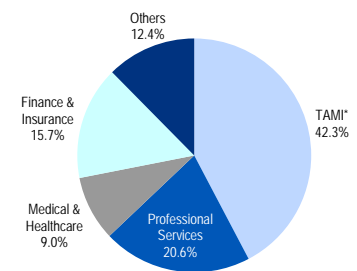
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (DEC 23)



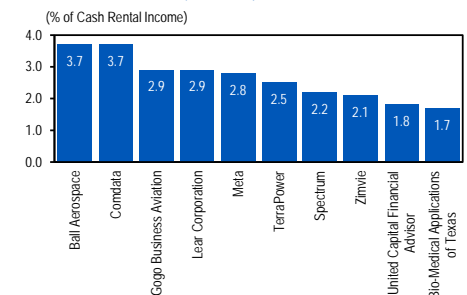
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (DEC 23)



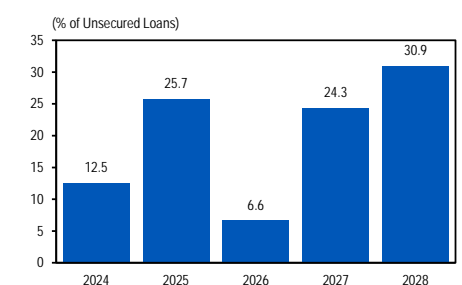
Source: KORE *Technology, Advertising, Media & Information

TOP 10 TENANTS (DEC 23)



Source: KORE

DEBT MATURITY PROFILE



Source: KORE

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	150.8	139.3	142.2	143.5
EBITDA	76.8	75.2	76.7	77.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	76.8	75.2	76.7	77.5
Net interest income/(expense)	(23.8)	(26.6)	(27.2)	(27.9)
Pre-tax profit	(98.8)	48.5	49.6	49.6
Tax	31.0	(2.4)	(2.5)	(2.5)
Net profit	(67.7)	46.1	47.1	47.1
Net profit (adj.)	84.0	46.1	47.1	47.1

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,326.3	1,386.3	1,436.3	1,476.3
Other LT assets	19.0	19.0	19.0	19.0
Cash/ST investment	43.8	48.4	48.7	48.8
Other current assets	4.6	4.0	4.1	4.1
Total assets	1,393.7	1,457.7	1,508.0	1,548.2
ST debt	75.0	75.0	75.0	75.0
Other current liabilities	41.1	31.7	32.3	32.6
LT debt	524.6	550.0	550.0	585.0
Other LT liabilities	29.8	31.8	34.3	36.9
Shareholders' equity	723.2	769.3	816.4	818.7
Total liabilities & equity	1,393.7	1,457.7	1,508.0	1,548.2

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	84.2	65.9	77.4	77.8
Pre-tax profit	(98.8)	46.1	47.1	47.1
Working capital changes	6.3	(9.4)	0.7	0.3
Non-cash items	151.7	0.0	0.0	0.0
Other operating cashflows	25.0	29.2	29.7	30.4
Investing	(45.9)	(60.0)	(50.0)	(40.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(46.7)	(60.0)	(50.0)	(40.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	0.0	0.0	0.0
Financing	(58.0)	(1.2)	(27.2)	(37.7)
Distribution to unitholders	(55.1)	0.0	0.0	(44.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.7	25.4	0.0	35.0
Others/interest paid	(24.6)	(26.6)	(27.2)	(27.9)
Net cash inflow (outflow)	(19.7)	4.6	0.3	0.1
Beginning cash & cash equivalent	63.4	43.8	48.4	48.7
Ending cash & cash equivalent	43.8	48.4	48.7	48.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	50.9	54.0	54.0	54.0
Pre-tax margin	(65.5)	34.8	34.8	34.5
Net margin	(44.9)	33.1	33.1	32.8
ROA	n.a.	3.2	3.2	3.1
ROE	n.a.	6.2	5.9	5.8
Growth				
Turnover	1.9	(7.6)	2.1	1.0
EBITDA	3.4	(2.1)	2.1	1.0
Pre-tax profit	(305.6)	n.a.	2.1	0.0
Net profit	(239.7)	n.a.	2.1	0.0
Net profit (adj.)	49.5	(45.1)	2.1	0.0
EPU	49.4	(45.1)	2.1	0.0
Leverage				
Debt to total capital	45.3	44.8	43.4	44.6
Debt to equity	82.9	81.2	76.5	80.6
Net debt/(cash) to equity	76.9	74.9	70.6	74.7
Interest cover (x)	3.2	2.8	2.8	2.8

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