

ASEAN GEMS CORPORATE HIGHLIGHTS

Keppel Pacific Oak US REIT (KORE SP)

Navigating The Office Downturn Without Diluting Unitholders' Interests

KORE has been unfairly penalised. By halting distribution in 2024 and 2025, KORE is able to fund its capex internally, while avoiding dilutive equity fund-raising and divesting its assets at depressed fire-sale prices. Assuming no further revaluation losses at end-24, KORE will provide an attractive distribution yield of 34.3% for 2026 when it resumes normal distribution. P/NAV is already at a distressed level of 0.18x although KORE has not breached any loan covenants. Maintain BUY. Target: US\$0.35.

WHAT'S NEW

- **Focusing 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 weakened to -4.4% in 4Q23 (9M23: 3.9% if adjusted for Spectrum's lease). Expansion and renewal accounted for 13.7% and 57.0% respectively of all the leases signed in 2023. Keppel Pacific Oak US REIT (KORE) benefits from built-in average annual rental escalation of 2.6% across its portfolio. Committed portfolio occupancy eased slightly by 1.1ppt qoq to 90.3% as of Dec 23.
- **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 puzzled as its aggregate leverage of 43.2% as of Dec 23 remains within the Monetary of Singapore's (MAS) regulatory limit of 50%.
- **Pre-emptive move to keep leverage and interest coverage within MAS' and banks' limits.** Management has evaluated various options:
 - a) KORE is unable to divest any properties at reasonable prices that are beneficial to its unitholders. Many potential buyers are unable to access financing from banks.
 - b) Equity fundraising is unlikely to raise sufficient equity capital, resulting in the need to seek additional equity capital again in the near future.
- **Funding for necessary capex.** Management estimates 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.

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)	2.3	1.6	2.8	2.8	2.8
P/B (x)	0.2	0.2	0.2	0.2	0.2
DPU Yld (%)	46.4	20.0	(0.0)	(0.0)	34.3
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.	n.a.	n.a.	3.1
UOBKH/Consensus (x)	-	-	-	-	1.38

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

BUY

(Maintained)

Share Price	US\$0.125
Target Price	US\$0.35
Upside	+180.0%

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):	130.6
Market cap (US\$m):	130.6
3-mth avg daily t'over (US\$m):	1.1

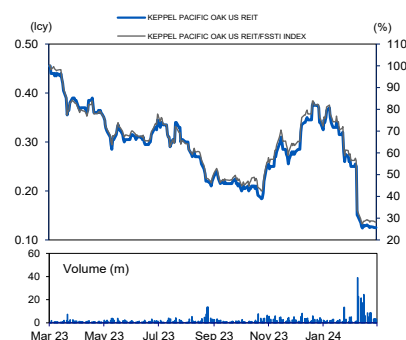
Price Performance (%)

52-week high/low	US\$0.455/US\$0.124			
1mth	3mth	6mth	1yr	YTD
(53.7)	(54.5)	(40.5)	(72.5)	(66.7)

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

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- **Ensuring continued support from relationship banks.** Banks are reluctant to lend if aggregate leverage stretches above 45%. They are wary of weakness in the US office market. With aggregate leverage at 43.2%, KORE is a whisker away from the threshold of 45.0%. Crossing the threshold of 45% would put the refinancing of its bank loan of US\$75m due in 4Q24 in jeopardy.

STOCK IMPACT

- **Navigating office downturn without diluting unitholders' interests.** KORE has been unfairly penalised. By halting distribution in 2024 and 2025, KORE is able to fund its capex internally, while avoiding dilutive equity fund raising and divesting its assets at depressed fire-sale prices. Assuming no further revaluation losses from its investment properties at end-24, KORE provides attractive distribution yield of 34.3% for 2026 when it resumes normal distribution. P/NAV is already at distressed levels of 0.18x although KORE has not breached any loan covenants.

EARNINGS REVISION/RISK

- **We keep our DPU forecast unchanged.**

VALUATION/RECOMMENDATION

- **Brutal sell-down.** KORE's effort to deleverage was misread by the market. The correction of 66.7% on an ytd basis was overly harsh. KORE provides 2026 distribution yield of 34.3% and trades at P/NAV of 0.18x (82% discount to NAV per unit).
- **Maintain BUY.** Our target price of US\$0.35 is based on DDM (cost of equity: 10.0%, terminal growth: 0.0%).

SHARE PRICE CATALYST

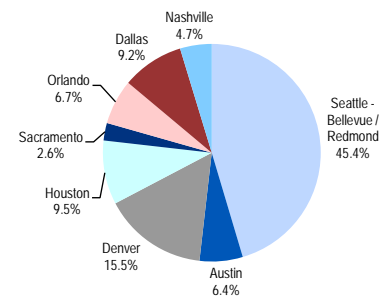
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from continued positive rental reversion and built-in annual rental escalation.

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%

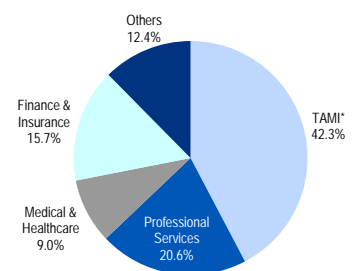
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (DEC 23)



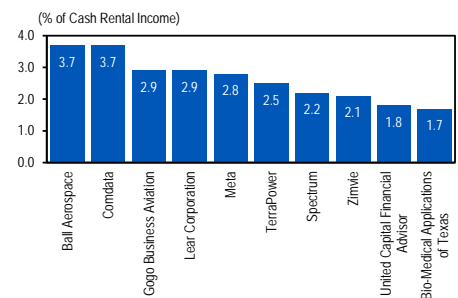
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (DEC 23)



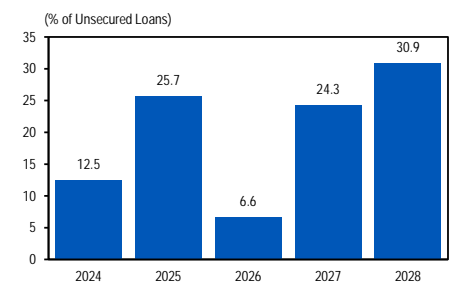
Source: KORE *Technology, Advertising, Media & Information

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

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

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

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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