

COMPANY UPDATE

**Keppel Pacific Oak US REIT (KORE SP)**

Throttling The Payout Ratio Level

**KORE is seeking approval to amend its trust deed for flexibility to vary its payout ratio. Funds retained are used to meet capex requirements to ensure aggregate leverage is maintained at a comfortable level. We assume a payout ratio of 30% in 2026, ratcheting higher by 15ppt per year to 45% in 2027, 60% in 2028 and stabilising at 75% in 2029. KORE is expected to resume distribution in 2H25. It trades at a distribution yield of 5.9% for 2025, 8.6% for 2026 and 11.2% for 2027. Maintain BUY. Target price: US\$0.24.**

WHAT'S NEW

- **Proposed amendment to trust deed.** The manager of Keppel Pacific Oak US REIT (KORE) has proposed amending its trust deed to require the manager to consider the interest of KORE and its unitholders when determining the amount of distributions to declare, which may range from 0% to 100% of distributable income. The new trust deed provides the manager with greater flexibility in determining the amount of distributions. The manager will only halt distributions if not doing so may affect the viability of KORE, including difficulties in refinancing its loans or financing its day-to-day operations. The existing trust deed fixed the minimum amount of distribution at 90% of annual distributable income.
- **Ensure sustainable financing of capex requirements.** The amendment provides flexibility for KORE to channel funds retained to meet capex requirements for its US office portfolio, which include tenant improvements, leasing commissions and other costs. The capex invested is essential to retain existing tenants and attract new tenants. Financing these capex requirements via debt is unsustainable due to the current environment of high interest rates and uncertainties surrounding the US office market.
- **Preserving balance sheet strength.** KORE has an aggregate leverage of 43.7% and an interest coverage ratio of 2.6x as of Dec 24. The amendment helps KORE maintain aggregate leverage at a comfortable level and reduce the likelihood of exceeding the aggregate leverage limit of 50%. Thus, KORE would be able to preserve a stronger balance sheet with comfortable debt headroom.
- The proposed amendment to the trust deed is subject to approval by unitholders during the EGM scheduled on 17 Apr 25.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2023	2024	2025F	2026F	2027F
Net turnover	151	146	149	150	150
EBITDA	77	69	72	74	75
Operating profit	77	69	72	74	75
Net profit (rep./act.)	(68)	(7)	41	41	41
Net profit (adj.)	84	47	41	41	41
EPU (US\$ cent)	8.0	4.5	3.9	3.9	3.9
DPU (US\$ cent)	2.5	0.0	0.3	1.2	1.7
PE (x)	2.5	4.4	5.1	5.1	5.1
P/B (x)	0.3	0.3	0.3	0.3	0.3
DPU Yld (%)	12.5	0.0	1.5	5.8	8.6
Net margin (%)	(44.9)	(4.7)	27.6	27.5	27.0
Net debt/(cash) to equity (%)	76.9	78.3	75.8	74.5	74.7
Interest cover (x)	3.2	2.6	2.4	2.3	2.2
ROE (%)	(8.6)	(1.0)	5.6	5.4	5.1
Consensus DPU (US\$ cent)	-	-	0.0	3.2	3.8
UOBKH/Consensus (x)	-	-	-	0.36	0.45

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

BUY

(Maintained)

Share Price	US\$0.20
Target Price	US\$0.24
Upside	+20.0%
(Previous TP)	US\$0.33)

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):	208.9
Market cap (US\$m):	208.9
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

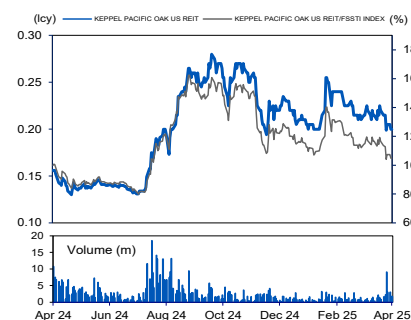
52-week high/low	US\$0.285/US\$0.129			
1mth	3mth	6mth	1yr	YTD
(4.8)	(4.8)	(25.9)	31.6	(2.4)

Major Shareholders

	%
Temasek Hldgs	7.2
Hillsboro Capital	8.7

FY25 NAV/Share (US\$)	0.72
FY25 Net Debt/ Share (US\$)	0.55

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Outlook for corporate America and office tenants shrouded in uncertainties.** The haphazard way the Trump Administration implements its trade and fiscal policies has created heightened uncertainties for corporate America. Companies are finding it difficult to plan due to uncertainties related to input costs. Consumers are also worried about higher prices of consumer goods caused by tariffs on imports.
- **Potential hypothetical scenarios.** We foresee various scenarios on future payout ratio over the medium term. We postulate two potential scenarios which are purely hypothetical in nature: a) payout ratio set at 50% in 2026 and ratcheting higher by 10ppt per year to 60% in 2027, 70% in 2028 and stabilising at 80% in 2029, and b) payout ratio set at 20% in 2026 and ratcheting higher by 20ppt per year to 40% in 2027, 60% in 2028 and stabilising at 80% in 2029. The ultimate payout ratio level must be deliberated and decided on by the board of directors, assuming the amendment of the trust deed is approved by unitholders.
- **Possibility of an earlier resumption of distribution.** KORE might be able to consider resuming distribution earlier in 2H25, assuming that management has the flexibility to toggle payout ratio below 90% in the medium term. We expect the potential earlier 2H25 distribution might be a token amount and the payout ratio to be below 50%.
- **Distribution to commence soon.** The harsh reality of heightened uncertainties for the outlook of the US economy has prompted management to adopt a prudent and conservative approach of gradually increasing the payout ratio. The gratification from resumption of distribution is offset by a phased approach with gradual step-ups in payout ratio. The discussion on when to pay and how much to pay has commenced.

EARNINGS REVISION/RISK

- We cut our DPU forecast by 69% for 2026 and by 52% for 2027 due to lower payout ratio.
  - a) We have assumed that payout ratio is 15% with DPU of 1.2 S cents for 2H25.
  - b) We have assumed that payout ratio set at 30% in 2026, ratcheting higher by 15ppt per year to 45% in 2027, 60% in 2028 and stabilising at 75% in 2029.
  - c) We have factored in higher cost of debt of 5.2% in 2026 due to replacement of expiring hedges with new hedges at higher interest rates.

VALUATION/RECOMMENDATION

- KORE provides distribution yield of 5.9% for 2025, 8.6% for 2026 and 11.2% for 2027, with P/NAV of 0.29x (71% discount to NAV per unit at US\$0.69).
- **Maintain BUY.** Our target price of US\$0.24 is based on DDM (cost of equity: 10.0% (previous: 10.5%), terminal growth: 0.5%).

SHARE PRICE CATALYST

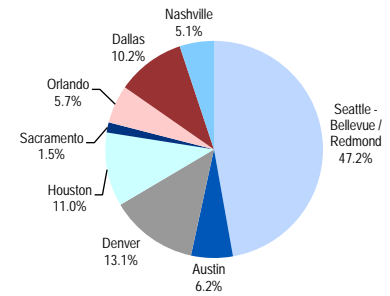
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration; growth from built-in average annual rental escalation of 2.6%.

KEY OPERATING METRICS

Key Metrics	4Q23	1Q24	2Q24	3Q24	4Q24	yoy % chg	qoq % chg
DPU (US cents)	0.00	n.a.	0.00	n.a.	0.00	n.a.	n.a.
Occupancy	90.3%	90.1%	90.7%	88.7%	90.0%	-0.3ppt	1.3ppt
Aggregate Leverage	43.2%	43.0%	42.7%	42.6%	43.7%	0.5ppt	1.1ppt
Average Cost of Debt	4.00%	4.34%	4.36%	4.48%	4.45%	0.45ppt	-0.03ppt
WALE by NLA (years)	3.6	3.7	3.6	3.7	3.8	0.2yrs	0.1yrs
Average Debt Maturity (years)	2.7	2.5	2.3	2.3	2.4	-0.3yrs	0.1yrs
Rental Reversions	-4.4%	-1.4%	1.2%	-1.2%	1.7%	6.1%	2.9%

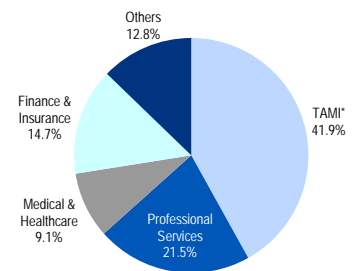
Source: KORE

GEOGRAPHICAL DIVERSIFICATION BY NPI (DEC 24)



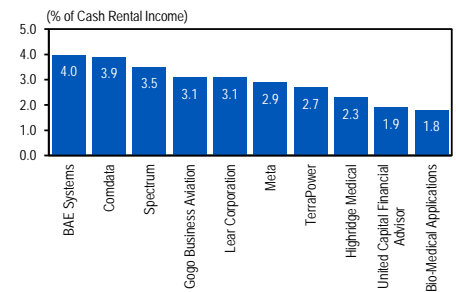
Source: KORE

INDUSTRY DIVERSIFICATION BY NLA (DEC 24)



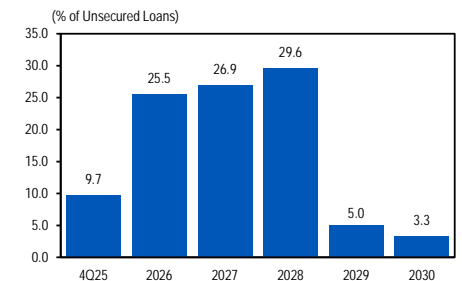
\*Technology, Advertising, Media & Information  
Source: KORE

TOP 10 TENANTS (DEC 24)



Source: KORE

DEBT MATURITY PROFILE



Source: KORE

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
Net turnover	146.4	148.9	149.8	150.1
EBITDA	69.3	72.4	74.3	74.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	69.3	72.4	74.3	74.5
Total other non-operating income	(53.9)	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(26.3)	(30.5)	(32.3)	(33.1)
<b>Pre-tax profit</b>	<b>(10.9)</b>	<b>41.9</b>	<b>42.0</b>	<b>41.4</b>
Tax	4.0	(0.8)	(0.8)	(0.8)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(6.9)</b>	<b>41.0</b>	<b>41.2</b>	<b>40.6</b>
Net profit (adj.)	47.0	41.0	41.2	40.6

### BALANCE SHEET

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
Fixed assets	1,326.4	1,376.4	1,416.4	1,456.4
Other LT assets	11.4	11.4	11.4	11.4
Cash/ST investment	44.2	42.2	43.3	44.7
Other current assets	6.0	4.3	4.3	4.3
<b>Total assets</b>	<b>1,388.0</b>	<b>1,434.3</b>	<b>1,475.4</b>	<b>1,516.8</b>
ST debt	59.0	59.0	59.0	59.0
Other current liabilities	41.2	40.0	38.2	36.2
LT debt	545.8	555.0	568.0	588.0
Other LT liabilities	25.6	26.2	27.0	27.9
Shareholders' equity	716.3	754.2	783.2	805.8
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>1,388.0</b>	<b>1,434.3</b>	<b>1,475.4</b>	<b>1,516.8</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>74.0</b>	<b>72.5</b>	<b>72.5</b>	<b>72.5</b>
Pre-tax profit	(10.9)	41.0	41.2	40.6
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	(0.9)	(0.3)	(1.8)	(2.0)
Non-cash items	53.9	0.0	0.0	0.0
Other operating cashflows	31.8	31.7	33.1	34.0
<b>Investing</b>	<b>(50.6)</b>	<b>(50.0)</b>	<b>(40.0)</b>	<b>(40.0)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(51.9)	(50.0)	(40.0)	(40.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1.3	0.0	0.0	0.0
<b>Financing</b>	<b>(23.0)</b>	<b>(24.5)</b>	<b>(31.5)</b>	<b>(31.1)</b>
Distribution to unitholders	(139.0)	(3.1)	(12.2)	(18.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	144.3	9.2	13.0	20.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(28.3)	(30.5)	(32.3)	(33.1)
<b>Net cash inflow (outflow)</b>	<b>0.4</b>	<b>(2.0)</b>	<b>1.0</b>	<b>1.4</b>
Beginning cash & cash equivalent	43.8	44.2	42.2	43.3
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>44.2</b>	<b>42.2</b>	<b>43.3</b>	<b>44.7</b>

### KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	47.3	48.6	49.6	49.7
Pre-tax margin	(7.4)	28.1	28.1	27.6
Net margin	(4.7)	27.6	27.5	27.0
ROA	(0.5)	2.9	2.8	2.7
ROE	(1.0)	5.6	5.4	5.1
<b>Growth</b>				
Turnover	(2.9)	1.7	0.6	0.2
EBITDA	(9.8)	4.5	2.7	0.3
Pre-tax profit	n.a.	n.a.	0.4	(1.5)
Net profit	n.a.	n.a.	0.4	(1.5)
Net profit (adj.)	(44.0)	(12.7)	0.4	(1.5)
EPU	(44.0)	(12.7)	0.4	(1.5)
<b>Leverage</b>				
Debt to total capital	45.8	44.9	44.5	44.5
Debt to equity	84.4	81.4	80.1	80.3
Net debt/(cash) to equity	78.3	75.8	74.5	74.7
Interest cover (x)	2.6	2.4	2.3	2.2

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