

## COMPANY RESULTS

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

1H23: Differentiated By Focus On Growth Cities

Adjusted NPI grew 1.4% yoy in 1H23 due to better performance from its existing properties despite the divestment of two Atlanta assets. The better performance relative to its peers demonstrated the merits of KORE's focus on growth cities and constant investment on maintenance and amenities. There was no material change and KORE did not conduct a mid-year review on valuations. KORE trades at an attractive 2023 distribution yield of 16.7% and P/NAV of 0.58x (42% discount to NAV). Maintain BUY. Target price: US\$0.50.

#### 1H23 RESULTS

Year to 31 Dec (US\$m)	1H23	yoy % Chg	Remarks
Gross Revenue	75.9	+2.4	Divestment of Northridge Center I & II and Powers Ferry in 2H22.
Net Property Income (NPI)	43.9	+2.0	
Adjusted NPI	44.2	+1.4	Exclude non-cash straight-line rent and lease incentives.
Distributable Income	26.1	-17.2	Decline was smaller at 12.6% yoy if 2Q22 base fees were paid in cash.
DPU (US cents)	2.50	-17.5	Decline was smaller at 12.6% yoy if 2Q22 base fees were paid in cash.

Source: KORE, UOB Kay Hian

#### RESULTS

- Keppel Pacific Oak US REIT (KORE) reported 1H23 DPU of 2.50 US cents (-17.2% yoy), which is in line with our expectations.
- Growing despite timely divestments that reduced leverage.** Adjusted NPI increased 1.4% yoy in 1H23 due to better performance from its existing properties despite the divestment of two Atlanta assets in 2H22. Distributable income declined 17.2% yoy to US\$26.1m due to: a) borrowing costs increasing 42.5% yoy due to rising interest rates, b) the divestments of Northridge Center I & II (completion: 28 Jul 22) and Powers Ferry (completion: 22 Dec 22) in Atlanta in 2H22, and c) management base fees taken in cash instead of units. On a like-for-like basis, distributable income declined by a smaller 12.6% yoy if base fees for both 1H22 and 1H23 were paid in cash.
- More stability in growth cities.** Portfolio occupancy eased slightly by 1.1ppt qoq to 90.8% in 2Q23. KORE signed leases for 289,057sf of office space in 1H23. Rental reversion was -4.6% in 1H23, which was skewed by Spectrum's renewal/expansion at Maitland Promenade I & II. Excluding Spectrum's lease, rental reversion was positive 4.0%. Eastside Seattle – Bellevue/Redmond, which accounted for 45.6% of portfolio NPI, saw continued positive leasing momentum.
- Room for organic growth.** Management targets positive rental reversion at low single-digit for 2023. In-place passing rent remains 1.6% below asking rents. The portfolio has built-in average rental escalation of 2.5% per year.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	141	148	144	145	146
EBITDA	74	74	78	78	79
Operating profit	74	74	78	78	79
Net profit (rep./act.)	77	48	(3)	55	56
Net profit (adj.)	46	56	55	55	56
EPU (US\$ cent)	4.8	5.4	5.2	4.6 <sup>^</sup>	4.2 <sup>^</sup>
DPU (US\$ cent)	6.3	5.8	5.0	3.9 <sup>^</sup>	4.0 <sup>^</sup>
PE (x)	6.3	5.6	5.7	6.9 <sup>*</sup>	6.7 <sup>*</sup>
P/B (x)	0.4	0.4	0.4	0.4 <sup>*</sup>	0.4 <sup>*</sup>
DPU Yld (%)	21.1	19.3	16.7	14.0 <sup>*</sup>	14.3 <sup>*</sup>
Net margin (%)	54.8	32.8	(2.0)	38.0	38.4
Net debt/(cash) to equity (%)	59.8	60.8	68.1	57.9	60.4
Interest cover (x)	5.1	4.0	3.3	3.4	3.5
ROE (%)	9.5	5.7	n.a.	6.7	6.5
Consensus DPU (US\$ cent)	n.a.	n.a.	4.9	4.4	4.5
UOBKH/Consensus (x)	-	-	1.02	0.89	0.89

<sup>\*</sup>Based on theoretical ex-rights unit price of US\$0.28. <sup>^</sup>Fully diluted for 293:1,000 rights issue at US\$0.21.  
Source: Keppel Pacific Oak US REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$0.30
Target Price	US\$0.50
Upside	+66.7%
(Previous TP)	US\$0.68)

#### 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):	313.3
Market cap (US\$m):	313.3
3-mth avg daily t'over (US\$m):	0.4

#### Price Performance (%)

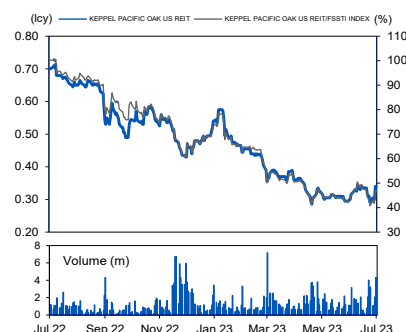
52-week high/low		US\$0.715/US\$0.285		
1mth	3mth	6mth	1yr	YTD
1.7	(20.0)	(42.3)	(56.8)	(34.8)

#### Major Shareholders

	%
Temasek Hldgs	11.1
Hillsboro Capital	8.7

FY23 NAV/Share (US\$)	0.76
FY23 Net Debt/Share (US\$)	0.52

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Jonathan Koh, CFA, MSc Econ**  
+65 6590 6620  
jonathankoh@uobkayhian.com

- **Prudent capital management.** KORE's all-in average cost of debt was 3.99%. Aggregate leverage remained stable at 38.4%. Interest coverage ratio was healthy at 3.4x. 77.6% of its borrowings are hedged to fixed rates. Loans that were due in Nov 23 and Jan 24 were early refinanced in Sep 22, and there are no debt refinancing requirements until 4Q24. Weighted average term to maturity is healthy at 3.1 years. KORE has no direct exposure to US regional banks.
- **Stable capital values.** KORE did not conduct a mid-year review for the valuation of its investment properties as assumptions made for its valuations as of Dec 22 remain valid. There was no material change in valuations because KORE focuses on: a) smaller sub-markets in growth cities and smaller tenants, and b) regular and disciplined investment in maintenance and amenities. Portfolio valuation would need to fall by 24% to hit the limit on aggregate leverage of 50%.

#### STOCK IMPACT

- **Growth from growth cities.** KORE benefits from the migration of Americans in massive numbers to large Sun Belt metro areas and fast-growing suburban cities. Management expects rental reversion to be low single-digit for 2023. Management is in discussions with prospective tenants in nuclear energy, healthcare, co-working and engineering sectors. It targets to maintain portfolio occupancy above 90% by end-23.
- **Gradual return to office.** Walt Disney, General Motors, Walmart, Starbucks and Vanguard Group have asked employees to return to work in the office more frequently. Amazon and Microsoft have brought employees back to the office in 2Q23, which will lead to higher physical occupancies for KORE's office buildings in Seattle - Bellevue/Redmond. Amazon required employees to return to office three days per week starting 1 May 23. Meta Platforms CEO Mark Zuckerberg is encouraging staff to "find more opportunities to work with your colleagues in person".
- **Resiliency from higher physical occupancy.** On a portfolio-wide basis, KORE's physical occupancy has improved 1ppt qoq to 65% in 2Q23. According to Kastle Systems, nationwide average for physical occupancy is 50% for the US as of Jul 23.

#### EARNINGS REVISION/RISK

- We maintain our existing DPU forecast.
- **Revaluation losses to be manageable.** We expect fair value of KORE's investment properties to drop 4%, or US\$57.5m, to US\$1,391m as at end-23 assuming cap rate for KORE's portfolio expands 25bp to 6.2%. Thus, we expect aggregate leverage to increase to 41.8% at end-23.
- **Factoring in the cost to deleverage.** We expect 2024 DPU to decline 22% due to a 293:1,000 rights issue with issue price at US\$0.21 (30% discount to prevailing market unit prices) to raise US\$64.2m and reduce aggregate leverage to 38% at end-24.

#### VALUATION/RECOMMENDATION

- **Unique value proposition of growth and yield.** We like KORE for its exposure to suburban office and Sun Belt states. KORE provides an attractive 2023 distribution yield of 16.7%. The stock trades at P/NAV of 0.58x (42% discount to NAV per unit).
- **Maintain BUY.** We lower our target price from US\$0.68 to US\$0.50 is based on DDM (cost of equity: 9.0%, terminal growth: 1.0% (previous: 2.2%)).

#### SHARE PRICE CATALYST

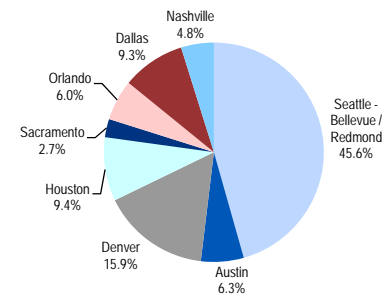
- Growth from Supernovas, Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from continued positive rental reversion and built-in annual rental escalation.

#### KEY OPERATING MATRICES – KORE

Key Metrics	2022	3Q22	4Q22	1Q23	2Q23	yoy % chg	qoq % chg
DPU (US cents)	3.02	n.a.	2.78	n.a.	2.50	-17.2%	-10.1%
Occupancy	92.0%	92.5%	92.6%	98.5%	90.8%	-1.2ppt	-7.7ppt
Aggregate Leverage	37.2%	37.5%	38.2%	38.7%	38.4%	1.2ppt	-0.3ppt
Average Cost of Debt	2.88%	2.88%	3.02%	3.86%	3.89%	1.01ppt	0.03ppt
WALE by NLA (years)	3.5	4.5	4.7	3.3	3.5	0yrs	0.2yrs
Weighted Average Debt Maturity (years)	2.7	3.9	3.6	3.4	3.1	0.4yrs	-0.3yrs
Rental Reversions	1.6%	5.3%	3.8%	-6.5%	2.6%	1.0%	9.1%

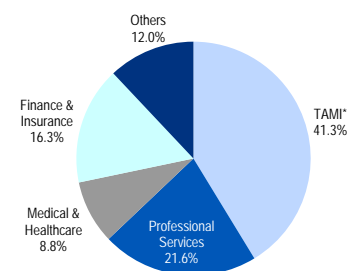
Source: KORE

#### GEOGRAPHICAL DIVERSIFICATION BY NPI (JUN 23)



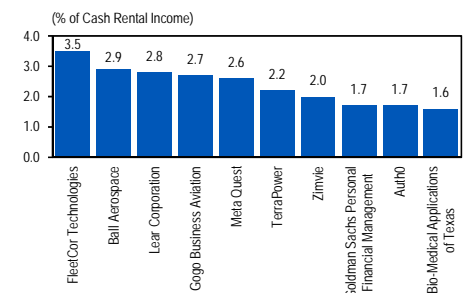
Source: KORE

#### INDUSTRY DIVERSIFICATION BY NLA (JUN 23)



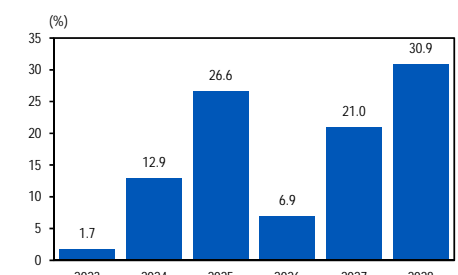
Source: KORE \*Technology, Advertising, Media & Information

#### TOP 10 TENANTS (JUN 23)



Source: KORE

#### DEBT MATURITY PROFILE (JUN 23)



Source: KORE

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	148.0	143.5	144.6	146.2
EBITDA	74.2	78.0	77.8	78.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	74.2	78.0	77.8	78.5
Net interest income/(expense)	(18.5)	(23.4)	(22.8)	(22.4)
Pre-tax profit	48.0	(2.9)	55.0	56.2
Tax	0.5	0.0	0.0	0.0
Net profit	48.5	(2.9)	55.0	56.2
Net profit (adj.)	56.2	54.6	55.0	56.2

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	1,423.4	1,390.9	1,415.9	1,440.9
Other LT assets	28.4	28.4	28.4	28.4
Cash/ST investment	63.4	53.9	51.6	51.3
Other current assets	4.3	4.1	4.2	4.2
<b>Total assets</b>	<b>1,519.5</b>	<b>1,477.2</b>	<b>1,500.0</b>	<b>1,524.7</b>
ST debt	10.2	10.2	10.2	10.2
Other current liabilities	34.8	32.6	32.9	33.2
LT debt	567.5	582.0	538.0	560.0
Other LT liabilities	60.9	61.5	61.5	61.6
Shareholders' equity	846.1	790.9	857.4	859.7
<b>Total liabilities &amp; equity</b>	<b>1,519.5</b>	<b>1,477.2</b>	<b>1,500.0</b>	<b>1,524.7</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	79.4	76.6	78.0	78.9
Pre-tax profit	48.0	(2.9)	55.0	56.2
Working capital changes	2.4	(1.6)	0.2	0.4
Non-cash items	9.5	57.5	0.0	0.0
Other operating cashflows	19.4	23.6	22.8	22.4
<b>Investing</b>	<b>(7.6)</b>	<b>(25.0)</b>	<b>(25.0)</b>	<b>(25.0)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(43.6)	(25.0)	(25.0)	(25.0)
Proceeds from sale of assets	35.9	0.0	0.0	0.0
Others	0.2	0.0	0.0	0.0
<b>Financing</b>	<b>(59.3)</b>	<b>(61.2)</b>	<b>(55.3)</b>	<b>(54.2)</b>
Distribution to unitholders	(58.0)	(52.3)	(52.7)	(53.9)
Issue of shares	0.0	0.0	64.2	0.0
Proceeds from borrowings	16.8	14.5	(44.0)	22.0
Others/interest paid	(18.2)	(23.4)	(22.8)	(22.4)
<b>Net cash inflow (outflow)</b>	<b>12.5</b>	<b>(9.6)</b>	<b>(2.3)</b>	<b>(0.3)</b>
Beginning cash & cash equivalent	51.0	63.4	53.9	51.6
Ending cash & cash equivalent	63.4	53.9	51.6	51.3

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	50.2	54.3	53.8	53.7
Pre-tax margin	32.5	(2.0)	38.0	38.4
Net margin	32.8	(2.0)	38.0	38.4
ROA	3.2	n.a.	3.7	3.7
ROE	5.7	n.a.	6.7	6.5
<b>Growth</b>				
Turnover	4.8	(3.0)	0.7	1.1
EBITDA	0.4	5.1	(0.2)	1.0
Pre-tax profit	(46.8)	(106.1)	n.a.	2.2
Net profit	(37.3)	(106.1)	n.a.	2.2
Net profit (adj.)	21.2	(2.8)	0.8	2.2
EPU	13.3	(2.9)	(12.1)	(9.4)
<b>Leverage</b>				
Debt to total capital	40.6	42.8	39.0	39.9
Debt to equity	68.3	74.9	63.9	66.3
Net debt/(cash) to equity	60.8	68.1	57.9	60.4
Interest cover (x)	4.0	3.3	3.4	3.5

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W