

COMPANY UPDATE

Parkway Life REIT (PREIT SP)

Potential Catalyst In The Making

Sponsor IHH Healthcare has to consider recycling assets if it decides to acquire Ramsay Sime Darby for RM5.67b (S\$1.83b). We estimate that the potential acquisition of Mount Elizabeth Novena Hospital from IHH for S\$1,286m could increase PREIT's 2023F DPU by 17% to 17.6 S cents and raise our target price from S\$4.82 to S\$5.42. Management might consider pursuing the acquisition over two phases to make the sizeable deal more digestible. Maintain HOLD. Target price: S\$4.82.

WHAT'S NEW

- Scaling up in home base Singapore.** As part of the strategic collaboration between the two companies, sponsor IHH Healthcare has granted Parkway Life REIT (PREIT) the first right of refusal (ROFR) to acquire the hospital block of Mount Elizabeth Novena Hospital for a period of 10 years. Mount Elizabeth Novena Hospital commenced operations in 2012. It has 13 operating theatres, 38 medical suites (excluding 216 sold to private medical specialists for RM1,210m (S\$495m) in 2012) and 333 single-bed-only wards. The property is currently valued at RM3,961m (S\$m1,278m) on IHH's balance sheet.
- Sponsor IHH Healthcare on acquisition trial.** Sponsor IHH Healthcare has submitted a bid to acquire Ramsay Sime Darby for RM5.67b (S\$1.83b) on a cash-free debt-free basis. Ramsay Sime Darby is a 50:50 JV between Ramsay and Sime Darby and operates six hospitals in Malaysia. The acquisition is conditional upon the completion of satisfactory due diligence. IHH would need funding should it decide to proceed to acquire Ramsay Sime Darby, which could be fulfilled by asset recycling through divestment of the hospital block of Mount Elizabeth Novena Hospital to PREIT.
- AEI for three Singapore hospitals.** The asset enhancement initiative (AEI) for the three Singapore hospitals is tracking schedule. We expect the initiative to focus on Mount Elizabeth Hospital located near Orchard Road, which is the largest and oldest of the three hospitals. The upgrading will focus on improving productivity and efficiency, including rejigging of hospital layout and right-sizing of operating theatres and wards. PREIT will benefit from enhancement to revenue generation as rental escalation is pegged to CPI + 1% or 3.8% of adjusted hospital revenue, whichever is higher.
- Benefitting from built-in rental escalation.** Rental escalation for the three Singapore hospitals is fixed at 3% per year for 2022, 2023 and 2024. Thereafter, rental escalation is pegged to CPI + 1% formula or 3.8% of adjusted hospital revenue, whichever is higher. CPI is deemed to be 0% if it is negative. Thus, growth in rental for the three hospitals in Singapore is always positive and at least 1% per year.
- Continue to increase scale of nursing homes in Japan.** PREIT has completed the acquisition of a nursing home located in the Greater Tokyo region in Japan for ¥3,200m (S\$37.9m) on 17 Dec 21. The acquisition is priced at 7% below valuation and is expected to generate NPI yield of 5.9%. This was the third acquisition in 2021 and brings PREIT's Japan portfolio to 52 properties valued at S\$804m (35.4% of AUM). The nursing home is operated by Habitation Group, PREIT's largest nursing home operator in Japan. The acquisition comes with a 20-year lease agreement, which lengthens PREIT's WALE by gross revenue from 17.42 to 17.47 years.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	121	121	126	129	131
EBITDA	96	95	101	104	106
Operating profit	96	95	101	104	106
Net profit (rep./act.)	88	332	89	331	92
Net profit (adj.)	82	81	89	91	92
EPU (S\$ cents)	13.5	13.5	14.6	15.0	15.3
DPU (S\$ cents)	13.8	14.1	14.7	15.1	15.3
PE (x)	35.6	35.7	32.9	32.0	31.5
P/B (x)	2.5	2.0	2.0	1.7	1.7
DPU Yld (%)	2.9	2.9	3.0	3.1	3.2
Net margin (%)	73.2	274.9	70.5	256.9	70.3
Net debt/(cash) to equity (%)	65.0	55.8	55.8	50.8	53.8
Interest cover (x)	18.4	20.3	22.3	22.0	21.2
ROE (%)	7.5	25.4	6.2	21.3	5.5
Consensus DPU (S\$ cent)	n.a.	n.a.	14.0	14.0	15.0
UOBKH/Consensus (x)	-	-	1.05	1.08	1.02

Source: Parkway Life REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$4.81
Target Price	S\$4.82
Upside	+0.2%
(Previous TP)	S\$4.72

COMPANY DESCRIPTION

Parkway Life REIT (PLife) is one of Asia's largest listed healthcare REITs. It invests primarily in income-producing real estate and real estate-related assets used primarily for healthcare and healthcare-related purposes.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PREIT SP
Shares issued (m):	605.0
Market cap (S\$m):	2,910.1
Market cap (US\$m):	2,133.9
3-mth avg daily t'over (US\$m):	2.6

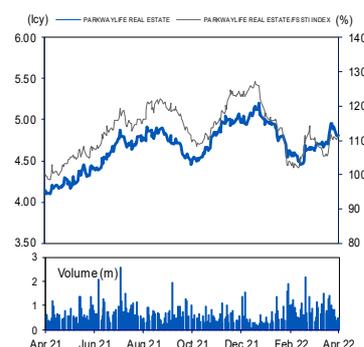
Price Performance (%)

52-week high/low	S\$5.20/S\$4.04			
1mth	3mth	6mth	1yr	YTD
3.2	(4.0)	6.9	17.3	(6.2)

Major Shareholders

Parkway Hldgs	35.6%
Cohen & Steers	7.0%
FY22 NAV/Share (S\$)	2.37
FY22 Net Debt/Share (S\$)	1.32

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Conservative capital management.** PREIT has maintained a healthy aggregate leverage at 35.4% as of Dec 21. It has term out with a five-year committed loan facility of up to ¥7.7b secured in Dec 21. There is no debt refinancing till Jun 23. Its weighted average debt maturity has improved to 3.9 years. Cost of debt remains low at 0.52%, while interest coverage ratio is an impressive 21.5x.
- **Appreciation of capital values supported by lease extension in Singapore.** PREIT recognised revaluation gains of S\$239.1m in 2021 (increase in portfolio value of 11.7%). NAV per share has increased 20.9% yoy to S\$2.37.

STOCK IMPACT

- **Refocusing on home base Singapore.** Our effort to value Mount Elizabeth Novena Hospital is hampered by the lack of disclosure on financial performance of Mount Elizabeth Novena Hospital, including its revenue and EBITDA, as a separate hospital. In our analysis, we have assumed that:
 - The four hospitals in Singapore, Mount Elizabeth, Gleneagles, Parkway East and Mount Elizabeth Novena, generated revenue of S\$1,038m in 2019, which is a normalised year before the impact of the COVID-19 pandemic.
 - The four hospitals achieve EBITDA margin of 30%. We have assumed that the four hospitals have a similar level of profitability.
 - Rental coverage for all four hospitals is 13% of revenue. We derive annual rent for Mount Elizabeth Novena Hospital at S\$62.4m, which is equivalent to 30% of Earnings Before Interest, Taxes, Amortisation, Depreciation & Rents.
 - Based on NPI margin of 95%, NPI yield of 5% and financial performance in 2019, we determined the valuation of Mount Elizabeth Novena Hospital to be S\$1,185m.
 - We estimated that recurrent revenue for the four Singapore hospitals (excluding non-repeatable COVID-19-related revenue) increased by 8.5% in 2021 compared to 2019. Thus, we estimated annual rent at S\$67.7m from Mount Elizabeth Novena Hospital and valuation at S\$1,286m.
 - We have assumed aggregate leverage of 40% post acquisition and funding mix of debt 47% (3Y term loan of S\$610m at interest rate of 2%) and equity 53% (private placement of 147.6m new units at S\$4.58 per unit (discount of 5% compared to prevailing market prices)).

- **Potential to raise target price.** Assuming that the acquisition of Mount Elizabeth Novena Hospital is completed by end-22, we estimated that the acquisition would be accretive to 2023 DPU by 17% to 17.6 S cents. Our target price would increase from S\$4.82 to S\$5.42 if PREIT proceeds with the acquisition of Mount Elizabeth Novena Hospital.
- **Accretive acquisition supported by premium unit price.** PREITs trades at distribution yield of 3.2% for 2025F and 3.9% for 2026F due to investors' preference for sustainable growth in the healthcare industry and its long WALE of 17.3 years. Its premium valuation supports accretive acquisitions.

- **Step by step.** The potential acquisition of Mount Elizabeth Novena Hospital is sizeable and increases AUM by 57%. Management might consider pursuing the acquisition over two phases to make the sizeable deal more digestible.
- **Adopting half-yearly reporting and semi-annual distribution.** PREIT will release its financial results on a half-yearly basis starting in financial year ending Dec 22. It will also be making distributions on a semi-annual basis going forward.

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EARNINGS REVISION/RISK

- We forecast DPU of 15.1 S cents for 2023 (Year 1), 15.3 S cents for 2024 (Year 2), 15.6 S cents for 2025 (Year 3) and 18.6 S cents for 2026 (Year 4) based on extension of lease for the three Singapore hospitals.

VALUATION/RECOMMENDATION

- **Maintain HOLD.** Our new target price of S\$4.82 is based on DDM (cost of equity: 5.5%, terminal growth: 2.0%).

SHARE PRICE CATALYST

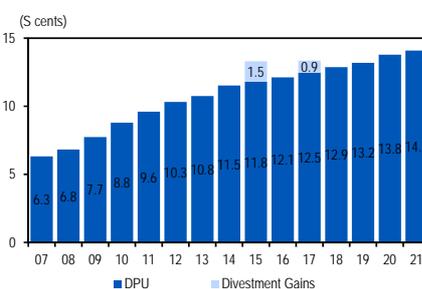
- Step-up in rents from Singapore hospitals in 2026 after AEI is completed.
- Yield-accretive acquisitions, including Mount Elizabeth Novena Hospital.

KEY OPERATING METRICS – PREIT

	1Q21	2Q21	3Q21	4Q21	yoy % change	qoq % change
DPU (S cents)	3.57	3.38	3.56	3.57	0.0%	0.3%
Occupancy	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	37.8%	37.0%	34.9%	35.4%	-3.1ppt	0.5ppt
Average Cost of Debt	0.55%	0.56%	0.53%	0.52%	-0.01ppt	-0.01ppt
WALE by Gross Revenue (years)	5.37	5.15	17.42	17.31	11.6yrs	-0.1yrs
Weighted Average Debt Maturity (years)	3.5	3.3	2.9	3.4	-0.1yrs	0.5yrs
Portfolio Value (S\$m)	1,990	1,990	2,290	2,289	13.3%	0.0%

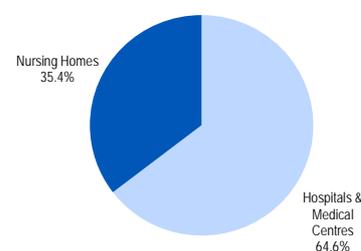
Source: PREIT, UOB Kay Hian

UNINTERRUPTED DPU GROWTH SINCE IPO



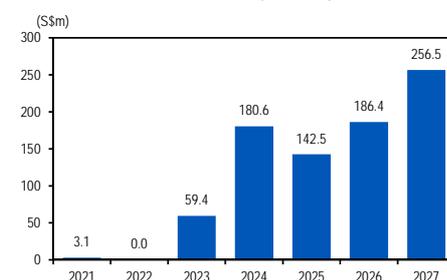
Source: PREIT

ASSET MIX (4Q21)



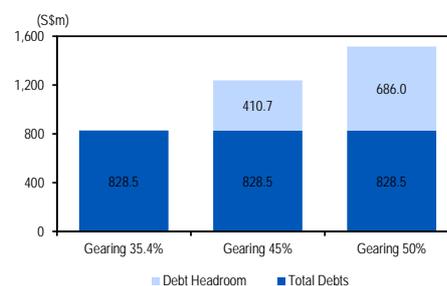
Source: PREIT

DEBT MATURITY PROFILE (DEC 21)



Source: PREIT

AMPLE DEBT HEADROOM (DEC 21)



Source: PREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	120.7	125.6	128.8	131.4
EBITDA	95.0	101.3	103.8	105.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	95.0	101.3	103.8	105.6
Net interest income/(expense)	(4.7)	(4.5)	(4.7)	(5.0)
Pre-tax profit	340.8	96.7	339.1	100.6
Tax	(8.9)	(8.2)	(8.2)	(8.3)
Net profit	331.9	88.5	330.9	92.3
Net profit (adj.)	81.5	88.5	90.9	92.3

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	89.9	105.8	106.5	107.8
Pre-tax profit	92.3	96.7	99.1	100.6
Deprec. & amort.	0.0	0.0	0.0	1.0
Other operating cashflows	(2.4)	9.1	7.3	6.1
Investing	(75.0)	(5.0)	(52.0)	(52.0)
Capex (growth)	(11.7)	(5.0)	(52.0)	(52.0)
Capex (maintenance)	(99.2)	0.0	0.0	0.0
Proceeds from sale of assets	35.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(10.0)	(101.4)	(55.3)	(55.4)
Distribution to unitholders	(85.2)	(88.7)	(91.1)	(92.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	80.0	0.0	48.8	50.0
Others/interest paid	(4.8)	(12.6)	(13.0)	(12.9)
Net cash inflow (outflow)	4.9	(0.5)	(0.8)	0.4
Beginning cash & cash equivalent	22.7	25.8	25.3	24.4
Changes due to forex impact	(1.8)	0.0	0.0	0.0
Ending cash & cash equivalent	25.8	25.3	24.4	24.8

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,290.8	2,290.8	2,580.8	2,630.8
Other LT assets	15.3	15.3	15.3	15.3
Cash/ST investment	25.8	25.3	24.4	24.8
Other current assets	13.3	14.6	14.9	15.2
Total assets	2,345.1	2,346.0	2,635.4	2,686.1
ST debt	94.7	94.7	94.7	94.7
Other current liabilities	22.9	23.8	24.2	24.7
LT debt	731.2	731.2	780.0	830.0
Other LT liabilities	61.6	61.8	62.1	62.5
Shareholders' equity	1,434.7	1,434.5	1,674.3	1,674.1
Total liabilities & equity	2,345.1	2,346.0	2,635.4	2,686.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	78.7	80.6	80.6	80.4
Pre-tax margin	282.3	77.0	263.3	76.6
Net margin	274.9	70.5	256.9	70.3
ROA	15.0	3.8	13.3	3.5
ROE	25.4	6.2	21.3	5.5
Growth				
Turnover	(0.2)	4.0	2.6	2.0
EBITDA	(1.2)	6.6	2.5	1.7
Pre-tax profit	249.1	(71.6)	250.6	(70.3)
Net profit	275.3	(73.3)	273.7	(72.1)
Net profit (adj.)	(0.4)	8.7	2.6	1.6
EPU	(0.4)	8.7	2.6	1.6
Leverage				
Debt to total capital	36.5	36.5	34.3	35.6
Debt to equity	57.6	57.6	52.2	55.2
Net debt/(cash) to equity	55.8	55.8	50.8	53.8
Interest cover (x)	20.3	22.3	22.0	21.2

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