

COMPANY UPDATE

Parkway Life REIT (PREIT SP)

Hospital Operations Normalising With Return Of Foreign Patients

PREIT's Singapore hospitals have been benefitting from the return of foreign patients, which accounted for 25% of revenue during pre-pandemic days, since since Singapore's borders were reopened in Apr 22. It continues to expand in Japan and completed the acquisition of five nursing homes in Hokkaido and Greater Tokyo in Sep 22. PREIT trades at a premium due to its resiliency and the scarcity of its healthcare properties. Maintain HOLD as 2023 DPU yield is fair at 3.7%. Target price: S\$4.13.

WHAT'S NEW

- **Singapore hospitals.** Benefitting from resumption of medical tourism. More local and foreign patients returned for treatments and operations at Parkway Life REIT's (PREIT) Singapore hospitals in 1H22. Revenue intensity increased 23% in 1H22 as case-mix skewed towards acute patients. Foreign patients have returned in significant numbers after Singapore reopened its international borders in Apr 22. This was offset by a significant tapering of COVID-19 related services. In particular, sponsor IHH has ceased its arrangement with the Ministry of Health to set aside beds for COVID-19 patients.
- **On track to commence upgrading of Singapore hospitals.** Renewal term for PREIT's Singapore hospitals has commenced with rental step-up of 2.0% for the interim period (23 Aug 22 to 31 Dec 22) and 3.0% annual step-up thereafter for the next three years (2023, 2024 and 2025). PREIT will invest S\$150m in renewal capex to upgrade its three Singapore hospitals to improve utilisation of space and resources and enhance operating performance, including rejigging of hospital layout and right-sizing of operating theatres and wards. The asset enhancement initiative is expected to start in Jan 23 and will take about three years.
- **Further expansion in Japan.** PREIT completed the acquisition of three nursing homes within the residential areas of Ebetsu and Asahikawa Cities in Hokkaido Prefecture for JPY2,558m (S\$26.1m) (12.2% below valuation) on 21 Sep 22. The three properties provide NPI yield of 6.5% and have long balance lease term of 19 years. PREIT also completed the acquisition of two nursing homes in the Greater Tokyo region for JPY2,880m (S\$29.4m) (11.1% below valuation) on 28 Sep 22. The two properties provide NPI yield of 5.2% and have long balance lease term of 29 years.
- **The number of PREIT's nursing homes in Japan reaches 57.** The acquisitions have extended PREIT's weighted average lease expiry (WALE) by gross revenue from 17.01 years to 17.21 years. The acquisitions are fully funded by Japanese yen-denominated debts. Aggregate leverage is expected to increase by 1.7ppt to 35.2%.
- **Prudent capital management.** PREIT had healthy aggregate leverage of 32.5% as of Jun 22. About 90% of PREIT's borrowings are denominated in Japanese yen. Natural hedge for its Japan portfolio is high at 92%. Thus, the negative impact of the yen's depreciation on its NAV per share is expected to be manageable. PREIT has conservatively extended its yen net income hedges till 1Q27 to ensure stable revenue stream from its Japan portfolio.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	121	121	121	125	128
EBITDA	96	95	96	101	103
Operating profit	96	95	96	101	103
Net profit (rep./act.)	88	332	91	326	87
Net profit (adj.)	82	81	84	86	87
EPU (S\$ cents)	13.5	13.5	13.9	14.2	14.4
DPU (S\$ cents)	13.8	14.1	14.1	14.2	14.5
PE (x)	28.5	28.6	27.7	27.1	26.7
P/B (x)	2.0	1.6	1.6	1.4	1.4
DPU Yld (%)	3.6	3.7	3.7	3.7	3.8
Net margin (%)	73.2	274.9	75.7	260.0	68.2
Net debt/(cash) to equity (%)	65.0	55.8	51.6	47.2	50.2
Interest cover (x)	18.4	20.3	19.0	13.8	13.2
ROE (%)	7.5	25.4	6.3	20.7	5.1
Consensus DPU (S\$ cent)	n.a.	n.a.	14.0	14.0	15.0
UOBKH/Consensus (x)	-	-	1.00	1.02	0.96

Source: Parkway Life REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.81
Target Price	S\$4.13
Upside	+7.3%
(Previous TP)	S\$4.34

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.

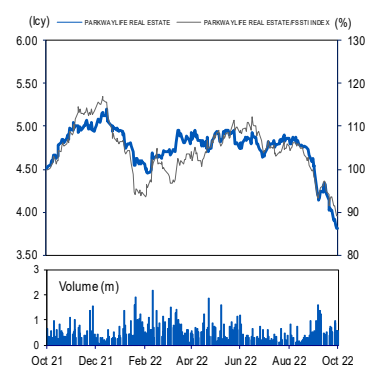
STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PREIT SP
Shares issued (m):	605.0
Market cap (S\$m):	2,329.3
Market cap (US\$m):	1,637.4
3-mth avg daily t'over (US\$m):	1.5
Price Performance (%)	
52-week high/low	S\$5.20/S\$3.85

1mth	3mth	6mth	1yr	YTD
(16.1)	(17.0)	(19.8)	(14.4)	(25.0)

Major Shareholders	%
Parkway Hldgs	35.5
Cohen & Steers	7.1
-	-
FY22 NAV/Share (S\$)	2.41
FY22 Net Debt/Share (S\$)	1.24

PRICE CHART



Source: Bloomberg

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- **Stable interest rates for the yen.** PREIT's all-in cost of debt was low at 0.61% as of Jun 22. About 82% of interest rate exposure hedged to fixed rates. UOB Global Economics & Markets Research expects Bank of Japan to maintain JPY Policy Rate at -0.10% for the foreseeable future. There are no debt refinancing needs till Jun 23.

STOCK IMPACT

- **Pure play on healthcare and ageing population.** Singapore is witnessing an unprecedented shift with the number of residents aged 65 years or older multiply threefold from 300,000 in 2005 to 900,000 in 2030. By 2030, one out of every five residents will be a senior. The demographic shift and ageing of Singapore's population will drive growth in demand for the healthcare industry.
- **Impeccable track record.** PREIT is the ultimate defensive S-REIT listed on the SGX. It has demonstrated resiliency with 15 consecutive years of uninterrupted growth in DPU driven by organic growth and new acquisitions. It had long WALE of 17.1 years as of Jun 22 (Singapore: 20.4 years and Japan: 11.5 years).
- **Comprehensive package that fosters future collaborations.** PREIT has extended its strategic collaboration with sponsor IHH Healthcare:
 - Extension for 20 years with sizeable step-up in rents.** PREIT has entered into a lease framework agreement for the extension of master leases of its three Singapore hospitals, namely Mount Elizabeth Hospital, Gleneagles Hospital and Parkway East Hospital. The initial rent for 2023 is S\$97.2m. Cumulatively, total rental growth is 39.4% for year 4 of the 20-year lease term. Rental escalation is set at CPI + 1% from year 4 to year 20. There is also an option to renew for a further 10 years (2043 to 2052).
 - Renewal that enhances capital values.** PREIT will invest S\$150m (cap) in one-time renewal capex to renovate and upgrade its three Singapore hospitals to enhance operational efficiency. Lessee Parkway Singapore Hospitals Pte Ltd would be able to increase utilisation of available space and increase its number of hospital beds, operating theatres, medical clinics and laboratory facilities. The renewal capex will be financed by external borrowings. PREIT will grant a total rental rebate of S\$60.9m during 2023 to 2025.
 - Potential injection of Mount Elizabeth Novena Hospital.** PREIT is granted the right of first refusal (ROFR) to acquire the hospital block of Mount Elizabeth Novena Hospital for a period of 10 years.

EARNINGS REVISION/RISK

- We have trimmed our 2023 DPU forecast by 3% after factoring in higher interest rate for floating rate loan of S\$86.7m due 2024.

VALUATION/RECOMMENDATION

- **Maintain HOLD.** Our target price of S\$4.13 is based on DDM (COE: 7.0%, terminal growth: 3.0%). We have raised the risk-free rate for DDM from 3.00% to 3.25%.
- **Premium valuation already reflects positive impact of leased extension for Singapore hospitals.** Valuation is now more palatable after the recent retracement. Nevertheless, 2023 DPU yield is fair at 3.7%.

SHARE PRICE CATALYST

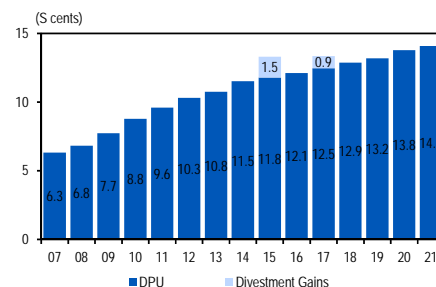
- Extension of leases for Singapore hospitals.
- Yield-accretive acquisitions.

KEY OPERATING METRICS – PREIT

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy % chg	qoq % chg
DPU (S cents)	3.57	3.38	3.56	3.57	n.a.	7.06	1.6%	-1.0%
Occupancy	99.7%	99.7%	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	37.8%	37.0%	34.9%	35.4%	34.5%	32.5%	-4.5ppt	-2ppt
Average Cost of Debt	0.55%	0.56%	0.53%	0.52%	0.56%	0.61%	0.05ppt	0.05ppt
WALE by Gross Revenue (years)	5.37	5.15	17.42	17.31	17.2	17.12	12yrs	-0.1yrs
Weighted Average Debt Maturity (years)	3.5	3.3	2.9	3.4	3.7	3.4	0.1yrs	-0.3yrs
Portfolio Value (S\$m)	1,990	1,990	2,290	2,289	2,290	2,290	15.1%	0.0%

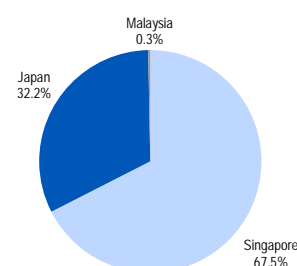
Source: PREIT, UOB Kay Hian

UNINTERRUPTED DPU GROWTH SINCE IPO



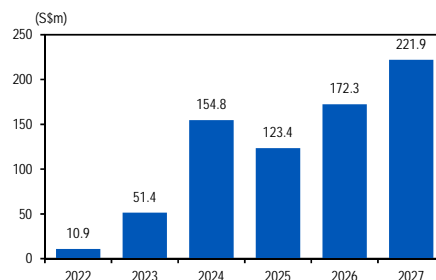
Source: PREIT

ASSET MIX (2022)



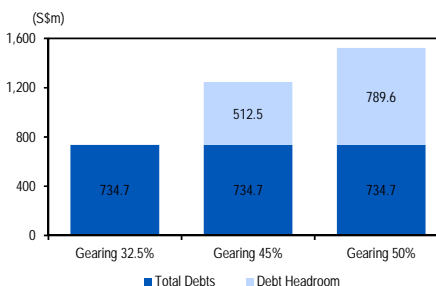
Source: PREIT

DEBT MATURITY PROFILE (2022)



Source: PREIT

AMPLE DEBT HEADROOM (2022)



Source: PREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	120.7	120.7	125.4	127.9
EBITDA	95.0	96.2	101.1	102.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	95.0	96.2	101.1	102.8
Net interest income/(expense)	(4.7)	(5.1)	(7.3)	(7.8)
Pre-tax profit	340.8	98.3	333.7	95.0
Tax	(8.9)	(6.9)	(7.7)	(7.8)
Net profit	331.9	91.4	326.0	87.3
Net profit (adj.)	81.5	84.2	86.0	87.3

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,290.8	2,243.2	2,533.2	2,583.2
Other LT assets	15.3	31.1	31.1	31.1
Cash/ST investment	25.8	35.2	30.6	30.9
Other current assets	13.3	15.1	15.3	15.6
Total assets	2,345.1	2,324.5	2,610.1	2,660.8
ST debt	94.7	62.3	62.3	62.3
Other current liabilities	22.9	23.1	23.5	24.0
LT debt	731.2	725.0	770.0	820.0
Other LT liabilities	61.6	57.0	57.4	57.8
Shareholders' equity	1,434.7	1,457.1	1,696.9	1,696.7
Total liabilities & equity	2,345.1	2,324.5	2,610.1	2,660.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	89.9	199.2	96.4	97.1
Pre-tax profit	92.3	92.8	93.7	95.0
Deprec. & amort.	0.0	0.0	0.0	1.0
Other operating cashflows	(2.4)	106.3	2.7	1.1
Investing	(75.0)	(60.5)	(52.0)	(52.0)
Capex (growth)	(11.7)	(5.0)	(52.0)	(52.0)
Capex (maintenance)	(99.2)	(55.5)	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)	(129.2)	(49.0)	(44.8)
Distribution to unitholders	(85.2)	(85.1)	(86.2)	(87.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	80.0	(38.6)	45.0	50.0
Others/interest paid	(4.8)	(5.6)	(7.8)	(7.3)
Net cash inflow (outflow)	4.9	9.4	(4.7)	0.4
Beginning cash & cash equivalent	22.7	25.8	35.2	30.6
Changes due to forex impact	(1.8)	0.0	0.0	0.0
Ending cash & cash equivalent	25.8	35.2	30.6	30.9

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	78.7	79.7	80.6	80.4
Pre-tax margin	282.3	81.5	266.2	74.3
Net margin	274.9	75.7	260.0	68.2
ROA	15.0	3.9	13.2	3.3
ROE	25.4	6.3	20.7	5.1
Growth				
Turnover	(0.2)	(0.0)	3.9	2.0
EBITDA	(1.2)	1.2	5.1	1.7
Pre-tax profit	249.1	(71.1)	239.4	(71.5)
Net profit	275.3	(72.5)	256.8	(73.2)
Net profit (adj.)	(0.4)	3.4	2.1	1.5
EPU	(0.4)	3.4	2.1	1.5
Leverage				
Debt to total capital	36.5	35.1	32.9	34.2
Debt to equity	57.6	54.0	49.0	52.0
Net debt/(cash) to equity	55.8	51.6	47.2	50.2
Interest cover (x)	20.3	19.0	13.8	13.2

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