

## COMPANY UPDATE

## Keppel Pacific Oak US REIT (KORE SP)

Resiliency From Growth Cities And Rich Amenities

We visited nine office properties across five US cities, namely Nashville, Dallas, Houston, Denver and Eastside Seattle – Bellevue and Redmond, which are growth cities benefitting from in-migration. KORE has invested in a rich array of amenities, which are vital for attracting new tenants and retaining existing ones. We also toured the office premises of FleetCor Technologies, Gogo Business Aviation, ZimVie and Meta Quest, which are KORE's top 10 tenants. Maintain BUY. Target price: US\$0.68.

## WHAT'S NEW

- **Growing with growth cities.** We visited nine office properties in Keppel Pacific Oak US REIT's (KORE) portfolio covering five US cities, ie Nashville (supernova), Dallas (super sunbelt), Houston (super sunbelt), Denver (18-hour) and Eastside Seattle – Bellevue and Redmond (multi-talented producer). We observed vibrancy in the local economies and growth from domestic tourism. In-migration and population expansion at these growth cities should cushion the negative impact from hybrid arrangements and remote work.
- **High quality of finishing for renovated office space.** KORE has consistently invested in a rich array of amenities, such as cafeteria/pantry areas, gyms and meeting rooms/auditoria, which are vital for attracting new tenants and retain existing ones. It has invested in spec suites at One Twenty Five in Dallas, 1800 West Loop South and Bellaire Park in Houston and The Plaza Buildings in downtown Bellevue, which are ready for immediate occupation. KORE engages interior designers to create a consistent ambience for common areas, amenities and spec suites.
- **Interactions with key tenants.** We toured the office premises of KORE's top 10 tenants, such as FleetCor Technologies, Gogo Business Aviation, ZimVie and Meta Quest. Its tenants appreciate and utilise the amenities in common areas. Physical occupancy is also at healthy levels, especially at R&D facilities for tenants in the technology, communications and medical devices sectors.

Click [here](#) for Blue Top dated 07 Jun 23

## 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)	6.4	5.7	5.8	7.0 <sup>*</sup>	6.8 <sup>*</sup>
P/B (x)	0.4	0.4	0.4	0.4 <sup>*</sup>	0.4 <sup>*</sup>
DPU Yld (%)	20.8	19.0	16.4	13.8 <sup>*</sup>	14.1 <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.	5.2	5.2	5.0
UOBKH/Consensus (x)	-	-	0.96	0.75	0.80

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

## BUY

(Maintained)

Share Price	US\$0.305
Target Price	US\$0.68
Upside	+123.0%
(Previous TP)	US\$0.70)

## COMPANY DESCRIPTION

KORE invests in a diversified portfolio of income-producing office real estate in US 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):	318.6
Market cap (US\$m):	318.6
3-mth avg daily t'over (US\$m):	0.5

## Price Performance (%)

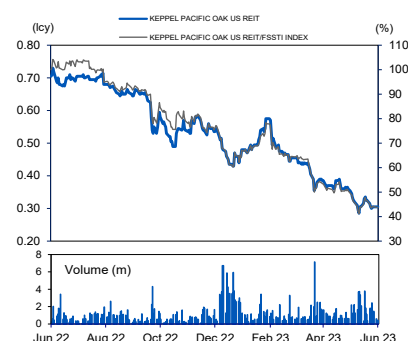
52-week high/low		US\$0.73/US\$0.285		
1mth	3mth	6mth	1yr	YTD
(15.3)	(33.0)	(43.0)	(56.4)	(33.7)

## 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

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### STOCK IMPACT

- **Resiliency despite slowdown in broader economy.** On a portfolio-wide basis, KORE has strong physical occupancies of 64%, compared with the nationwide average of 50% for the US (Manulife US REIT: 30%, Prime US REIT: 56%). KORE's portfolio occupancy was 91.9% as of Mar 23. Leases accounting for 10.6% of cash rental income are expiring during the rest of the year. Management has actively engaged tenants to assess their long-term space requirements. Portfolio occupancy is expected to stay above 90% due to backfilling of vacant office space.
- **Maintain BUY.** The site visits reflect KORE's commitment to transparency, which is a hallmark of good corporate governance.

### EARNINGS REVISION/RISK

- **Mild erosion in capital values.** Capital values for office properties had dropped 5.9% yoy as of Mar 23 based on RCA Commercial Property Price Index. We estimated 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 and hit 41.8% at end-23.
- **Factoring in the cost to deleverage.** We have cut 2024 DPU forecast by 22% due to a 1,000:293 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.
- **Rights issue does not dilute minorities.** We assessed that KORE is unlikely to need an infusion of equity capital. We hypothetically assumed an equity fund-raising exercise to make our valuation for KORE more comparable to that of other US office REITs. There is execution risk associated with launching a rights issue. Nevertheless, a rights issue has the virtue of not diluting minority unitholders' interest.

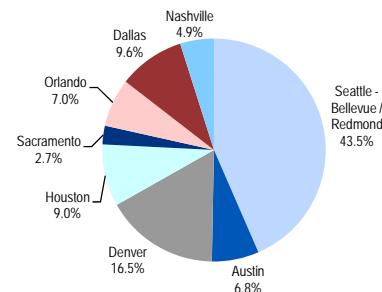
### VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US\$0.68 is based on DDM (cost of equity: 9.0%, terminal growth: 2.2%).

### SHARE PRICE CATALYST

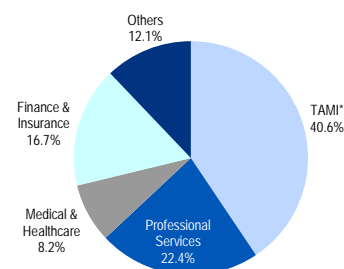
- Growth from Supernova, Super Sun Belt and 18-hour cities driven by in-migration.
- Growth from positive rental reversion and built-in annual rental escalation.

### GEOGRAPHICAL DIVERSIFICATION BY NPI (MAR 23)



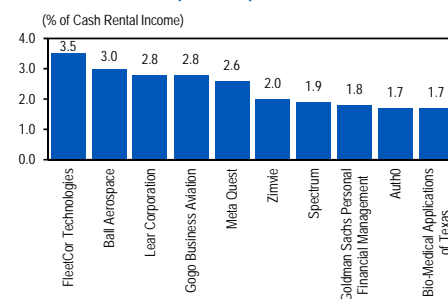
Source: KORE

### INDUSTRY DIVERSIFICATION BY NLA (MAR 23)



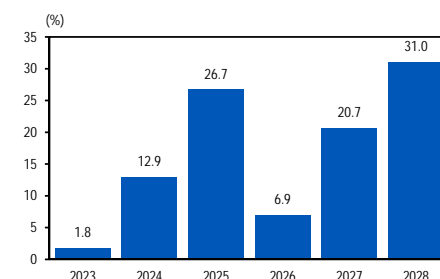
Source: KORE \*Technology, Advertising, Media & Information

### TOP 10 TENANTS (MAR 23)



Source: KORE

### DEBT MATURITY PROFILE (MAR 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
Investing	(7.6)	(25.0)	(25.0)	(25.0)
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
Financing	(59.3)	(61.2)	(55.3)	(54.2)
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
Profitability				
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
Growth				
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)
Leverage				
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

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