

### COMPANY UPDATE

## Prime US REIT (PRIME SP)

On The Verge Of Completing Refinancing

**PRIME is on the verge of completing its refinancing, with three lenders in its syndicate of four banks in the final stage of legal documentation. It has completed the divestment of One Town Center in Boca Raton, Florida for US\$82m on 10 Jul 24. Aggregate leverage is expected to decline from 48.4% to 45.8%, assuming proceeds are fully utilised to repay debts. PRIME trades at a depressed P/NAV of 0.22x, which already reflects a prolonged downturn in the US office market. Maintain BUY. Target price: US\$0.28.**

### WHAT'S NEW

- **Closed to finalising refinancing.** Prime US REIT (PRIME) is working with a syndicate of four banks on the refinancing for its credit facilities of US\$600m. Three lenders are in the final stage of legal documentation. One lender has requested additional time to finalise internal documentation. We expect the refinancing to be completed by Aug 24. The completion of refinancing would restore confidence and remove a major overhang for PRIME.
- **Deleveraging through divestment.** PRIME has completed the divestment of One Town Center in Boca Raton, Florida for US\$82m on 10 Jul 24 (3.3% below valuation of US\$84.8m). We view the selling price as attractive given the current dire outlook for the office market. The divestment proceeds will be utilised to pare down debts and fund capex required to drive new leasing activities. Aggregate leverage is expected to decline from 48.4% to 45.8% assuming proceeds are fully utilised to repay debts.
- **PRIME is maintaining strong leasing momentum,** with leases for 171,300sf of office space executed in 1Q24 (renewals: 51%, new leases: 49%), more than doubling on a yoy basis. Occupancy at Tower 1 at Emeryville in San Francisco Bay Area improved 6.6ppt qoq to 75.7% after securing a seven-year 18,900sf lease with a new biomedical manufacturing tenant. Occupancy at Promenade I & II in St Antonio improved 6.1ppt qoq to 92.0% after securing new tenants from the professional services and healthcare industries. An existing tenant at Reston Square in Washington DC has also renewed its 31,800sf lease for 11 years.

### KEY FINANCIALS

| Year to 31 Dec (US\$m)        | 2022   | 2023   | 2024F | 2025F | 2026F |
|-------------------------------|--------|--------|-------|-------|-------|
| Net turnover                  | 163    | 160    | 153   | 158   | 161   |
| EBITDA                        | 87     | 85     | 78    | 82    | 83    |
| Operating profit              | 87     | 85     | 78    | 82    | 83    |
| Net profit (rep./act.)        | (27)   | (116)  | 46    | 48    | 50    |
| Net profit (adj.)             | 80     | 57     | 46    | 48    | 50    |
| EPU (US\$ cent)               | 6.7    | 4.8    | 3.5   | 3.7   | 3.8   |
| DPU (US\$ cent)               | 6.6    | 2.7    | 0.4   | 0.4   | 4.1   |
| PE (x)                        | 1.9    | 2.7    | 3.7   | 3.5   | 3.4   |
| P/B (x)                       | 0.2    | 0.2    | 0.2   | 0.2   | 0.2   |
| DPU Yld (%)                   | 50.8   | 21.0   | 2.9   | 3.1   | 31.6  |
| Net margin (%)                | (16.5) | (72.5) | 30.1  | 30.5  | 31.1  |
| Net debt/(cash) to equity (%) | 73.2   | 95.9   | 79.1  | 72.5  | 76.3  |
| Interest cover (x)            | 4.0    | 3.0    | 2.5   | 2.5   | 2.5   |
| ROE (%)                       | n.a.   | n.a.   | 6.3   | 6.2   | 6.3   |
| Consensus DPU (US\$ cent)     | n.a.   | n.a.   | 1.0   | 3.2   | 4.2   |
| UOBKH/Consensus (x)           | -      | -      | 0.38  | 0.12  | 0.97  |

Source: Prime US REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

|               |           |
|---------------|-----------|
| Share Price   | US\$0.129 |
| Target Price  | US\$0.28  |
| Upside        | +117.1%   |
| (Previous TP) | US\$0.34  |

### COMPANY DESCRIPTION

PRIME invests in stabilised income-producing office assets in the US. It has a high-quality portfolio of 14 Class A freehold office properties strategically located in 13 key office markets valued at US\$1.4b as at Dec 23.

### STOCK DATA

|                                 |             |
|---------------------------------|-------------|
| GICS sector                     | Real Estate |
| Bloomberg ticker:               | PRIME SP    |
| Shares issued (m):              | 1,308.3     |
| Market cap (US\$m):             | 168.8       |
| Market cap (US\$m):             | 168.8       |
| 3-mth avg daily t'over (US\$m): | 0.3         |

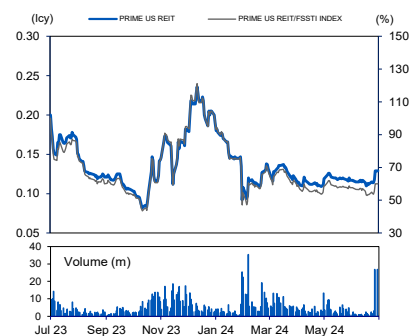
### Price Performance (%)

|                  |                     |             |            |            |
|------------------|---------------------|-------------|------------|------------|
| 52-week high/low | US\$0.236/US\$0.082 |             |            |            |
| <b>1mth</b>      | <b>3mth</b>         | <b>6mth</b> | <b>1yr</b> | <b>YTD</b> |
| 11.2             | 4.9                 | (36.9)      | (36.9)     | (40.9)     |

### Major Shareholders

|                            |      |
|----------------------------|------|
| KBS REIT Properties        | 18.2 |
| Temasek Hldgs              | 8.9  |
| FY24 NAV/Share (US\$)      | 0.58 |
| FY24 Net Debt/Share (US\$) | 0.46 |

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Closing in on several leasing discussions.** Management is in advanced negotiations with a potential replacement tenant for a sizeable new lease at Park Tower in Sacramento (100,000sf), which is expected to conclude in 3Q24. This new lease with a government agency has the potential to bring occupancy back above the stabilised level.
- **Positive leasing momentum.** Reston Square in Washington DC has secured new tenants in 2Q24. There is also strong leasing momentum for 171 17th Street in Atlanta. Management expects portfolio occupancy to remain stable at 80-85%.
- **Repositioning OWC.** One Washingtonian Center (OWC) in Washington DC is undergoing asset enhancement initiatives (AEI). The lobby entrance will be rejuvenated. Amenities will be centralised at level one, including a tenant lounge, a conference centre, cafe and a new full-service gym. The 14-storey office building has a lakefront view and direct connection to RIO Shopping Center, which offers a diverse mix of shops and restaurants. The AEI is scheduled to complete in 2H24. Discussions with prospective new tenants are underway.

### EARNINGS REVISION/RISK

- We have assumed that:
  - a) Average cost of debt increase to 5.5% post-refinancing (1Q24: 4.1%).
  - b) PRIME maintains payout ratio at 10% in 2025 and 2026, and resumes paying 100% of distributable income in 2026.
- We forecast DPU of 0.4 US cents for 2025 and 4.1 US cents for 2026.

### VALUATION/RECOMMENDATION

- **Lucrative distribution yield.** PRIME provides an attractive distribution yield of 3.1% for 2025 and 31.6% for 2026. The stock trades at a depressed P/NAV of 0.22x.
- **Maintain BUY.** Our target price of US\$0.28 is based on DDM (cost of equity: 11.75%, terminal growth: 0.0%).

### SHARE PRICE CATALYST

- Successful execution for refinancing and deleveraging.
- Backfilling of vacant spaces and maintaining positive rental reversion.

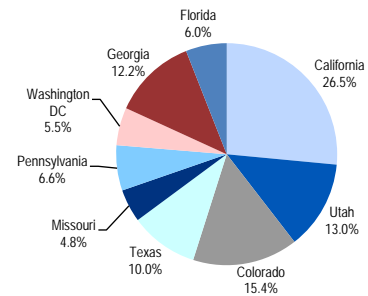
### KEY OPERATING METRICS - PRIME

|                                | 1Q23  | 2Q23  | 3Q23  | 4Q23  | 1Q24  | yoy % Chg | qoq % Chg* |
|--------------------------------|-------|-------|-------|-------|-------|-----------|------------|
| DPU (US cents)                 | n.a.  | 2.46  | n.a.  | 0.25  | n.a.  | n.a.      | n.a.       |
| Occupancy                      | 88.6% | 85.6% | 85.0% | 85.4% | 84.7% | -3.9ppt   | -0.7ppt    |
| Aggregate Leverage             | 43.7% | 42.8% | 43.7% | 48.4% | 48.1% | 4.4ppt    | -0.3ppt    |
| Average Cost of Debt           | 3.7%  | 3.8%  | 4.0%  | 3.80% | 4.10% | 0.4ppt    | 0.3ppt     |
| Weighted Debt Maturity (years) | 1.7   | 1.5   | 1.6   | 1.3   | 1.3   | -0.4yrs   | 0.0yrs     |
| % Borrowings on Fixed Rates    | 79%   | 80%   | 78.0% | 79.0% | 79.0% | 0.0%      | 0.0%       |
| WALE by NLA                    | 3.9   | 3.9   | 3.8   | 4.0   | 4.2   | 0.3yrs    | 0.2yrs     |
| Rental Reversion               | -2.6% | 9.5%  | -2.0% | 9.6%  | -1.8% | 0.8ppt    | -11.4ppt   |

\* hoh % chg for DPU

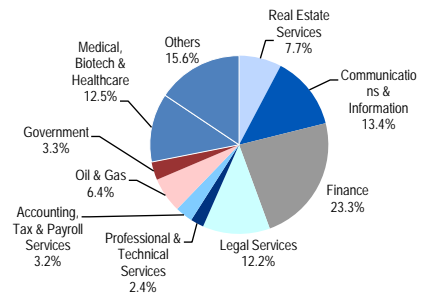
Source: PRIME, UOB Kay Hian

### PORTFOLIO VALUATION BY STATE



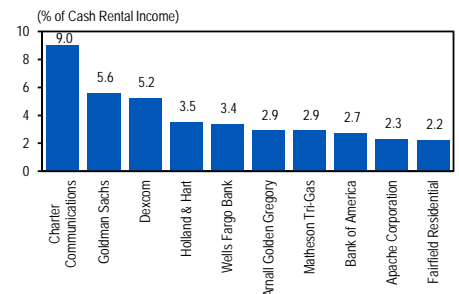
Source: PRIME

### SECTOR DIVERSIFICATION BY CASH RENTAL INCOME



Source: PRIME

### TOP 10 TENANTS AS % OF CASH RENTAL INCOME



Source: PRIME

### POSITIVE RENTAL REVERSION



Source: PRIME

### PROFIT & LOSS

| Year to 31 Dec (US\$m)        | 2023    | 2024F  | 2025F  | 2026F  |
|-------------------------------|---------|--------|--------|--------|
| Net turnover                  | 159.8   | 152.7  | 157.6  | 160.8  |
| EBITDA                        | 85.0    | 78.5   | 81.9   | 83.5   |
| Deprec. & amort.              | 0.0     | 0.0    | 0.0    | 0.0    |
| EBIT                          | 85.0    | 78.5   | 81.9   | 83.5   |
| Net interest income/(expense) | (28.0)  | (32.0) | (33.2) | (32.8) |
| Pre-tax profit                | (115.8) | 46.5   | 48.7   | 50.7   |
| Tax                           | (0.0)   | (0.6)  | (0.6)  | (0.6)  |
| Net profit                    | (115.8) | 45.9   | 48.1   | 50.1   |
| Net profit (adj.)             | 56.9    | 45.9   | 48.1   | 50.1   |

### BALANCE SHEET

| Year to 31 Dec (US\$m)     | 2023    | 2024F   | 2025F   | 2026F   |
|----------------------------|---------|---------|---------|---------|
| Fixed assets               | 1,408.0 | 1,355.2 | 1,380.2 | 1,405.2 |
| Other LT assets            | 18.4    | 18.4    | 18.4    | 18.4    |
| Cash/ST investment         | 11.8    | 12.7    | 13.7    | 11.1    |
| Other current assets       | 6.0     | 3.8     | 3.9     | 4.0     |
| Total assets               | 1,444.1 | 1,390.1 | 1,416.2 | 1,438.6 |
| ST debt                    | 478.4   | 0.0     | 0.0     | 0.0     |
| Other current liabilities  | 29.7    | 26.4    | 27.4    | 27.9    |
| LT debt                    | 218.0   | 608.0   | 590.0   | 615.0   |
| Other LT liabilities       | 4.4     | 3.5     | 3.6     | 3.7     |
| Shareholders' equity       | 713.7   | 752.3   | 795.2   | 792.0   |
| Total liabilities & equity | 1,444.1 | 1,390.1 | 1,416.2 | 1,438.6 |

### CASH FLOW

| Year to 31 Dec (US\$m)           | 2023   | 2024F   | 2025F  | 2026F  |
|----------------------------------|--------|---------|--------|--------|
| Operating                        | 90.2   | 157.8   | 82.4   | 83.4   |
| Pre-tax profit                   | 56.9   | 44.1    | 48.7   | 50.7   |
| Deprec. & amort.                 | (0.2)  | (3.0)   | (2.2)  | (2.0)  |
| Working capital changes          | (2.8)  | 0.3     | 0.7    | 0.4    |
| Non-cash items                   | 0.0    | 0.0     | 0.0    | 0.0    |
| Other operating cashflows        | 36.2   | 116.4   | 35.2   | 34.4   |
| Investing                        | (30.1) | (32.0)  | (25.0) | (25.0) |
| Capex (growth)                   | 0.0    | 0.0     | 0.0    | 0.0    |
| Capex (maintenance)              | (29.5) | (32.0)  | (25.0) | (25.0) |
| Others                           | (0.6)  | 0.0     | 0.0    | 0.0    |
| Financing                        | (60.3) | (125.3) | (56.4) | (61.1) |
| Distribution to unitholders      | (75.9) | (4.9)   | (5.2)  | (53.3) |
| Issue of shares                  | 0.0    | 0.0     | 0.0    | 0.0    |
| Proceeds from borrowings         | 35.0   | (88.4)  | (18.0) | 25.0   |
| Others/interest paid             | (19.5) | (32.0)  | (33.2) | (32.8) |
| Net cash inflow (outflow)        | (0.3)  | 0.4     | 1.0    | (2.6)  |
| Beginning cash & cash equivalent | 11.6   | 12.3    | 12.7   | 13.7   |
| Changes due to forex impact      | 1.0    | 0.0     | 0.0    | 0.0    |
| Ending cash & cash equivalent    | 12.3   | 12.7    | 13.7   | 11.1   |

### KEY METRICS

| Year to 31 Dec (%)        | 2023   | 2024F  | 2025F | 2026F |
|---------------------------|--------|--------|-------|-------|
| <b>Profitability</b>      |        |        |       |       |
| EBITDA margin             | 53.2   | 51.4   | 52.0  | 51.9  |
| Pre-tax margin            | (72.5) | 30.5   | 30.9  | 31.5  |
| Net margin                | (72.5) | 30.1   | 30.5  | 31.1  |
| ROA                       | n.a.   | 3.2    | 3.4   | 3.5   |
| ROE                       | n.a.   | 6.3    | 6.2   | 6.3   |
| <b>Growth</b>             |        |        |       |       |
| Turnover                  | (2.0)  | (4.5)  | 3.2   | 2.0   |
| EBITDA                    | (2.6)  | (7.6)  | 4.3   | 1.9   |
| Pre-tax profit            | n.a.   | n.a.   | 4.7   | 4.0   |
| Net profit                | n.a.   | n.a.   | 4.8   | 4.1   |
| Net profit (adj.)         | (28.5) | (19.3) | 4.8   | 4.1   |
| EPU                       | (28.9) | (26.7) | 4.8   | 4.1   |
| <b>Leverage</b>           |        |        |       |       |
| Debt to total capital     | 49.4   | 44.7   | 42.6  | 43.7  |
| Debt to equity            | 97.6   | 80.8   | 74.2  | 77.7  |
| Net debt/(cash) to equity | 95.9   | 79.1   | 72.5  | 76.3  |
| Interest cover (x)        | 3.0    | 2.5    | 2.5   | 2.5   |

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